

# THE CHINA WHITE PAPER

August 1949

VOLUME I

Originally Issued as  
UNITED STATES RELATIONS WITH CHINA  
With Special Reference to the Period 1944-1949  
Department of State Publication 3573  
Far Eastern Series 30

Reissued with the Original Letter of Transmittal  
to President Truman from Secretary of State Dean Acheson

WITH A NEW INTRODUCTION BY LYMAN P. VAN SLYKE

STANFORD UNIVERSITY PRESS



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and with a New Introduction by  
LYMAN P. VAN SLYKE

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Stanford, California

*The China White Paper* was originally issued by the United States Department of State in August 1949 under the title *United States Relations with China, With Special Reference to the Period 1944-1949*. The present edition is identical to the original except for the unnumbered front matter, ending with the Introduction by Lyman P. Van Slyke; the correction of some sixty typographical errors and minor discrepancies of orthography; and the addition of an Index. The Index was prepared for the present edition by Willard A. Heaps.

Stanford University Press  
Stanford, California  
Introduction and Index © 1967 by the Board of Trustees  
of the Leland Stanford Junior University  
Printed in the United States of America  
Cloth ISBN 0-8047-0607-7  
Paper ISBN 0-8047-0608-5  
Last figure below indicates year of this printing:  
79 78 77 76 75 74 73 72 71 70

# Introduction

by Lyman P. Van Slyke

UNTIL the Japanese attack on Pearl Harbor, American attitudes toward China were shaped by the missionary and the trader, who operated under the system of the unequal treaties forced on China by the Western powers. The United States benefited fully from such treaties—and even contributed to their final form by adding the concept of extra-territoriality—but because Americans had not taken the initiative in setting up and enforcing the treaty system, the American people felt little responsibility for its inequities. In time, Americans came to feel that their behavior in China contrasted favorably with the selfishness of the European powers and Japan, and this feeling was greatly heightened by the idealism and moral fervor of the American missionary effort. The trader and the businessman—advocating free trade and opposing exclusive spheres of influence—represented America's economic stake in China. But this was never more than a very small part of American overseas investment.

In the end, therefore, there grew up a split between our attitudes and our actions. Having no great political or economic stake in China, we were inclined to frame our China policy in moral terms; but for the same reason, we were unwilling to back our policies, however just, against the conflicting policies of nations with higher stakes in the game. There was no conscious duplicity on our part. Our China policy reflected our feelings as a nation; if we were reluctant to back these feelings, it was because our vital interests were not really involved in China.

All this was symbolized by the Open Door policy. Originally an affirmation that every nation should have equality of economic opportunity in China, the Open Door policy was soon redefined as a call for the territorial and administrative integrity of China; but it never led to effective action on our part to ensure China's independence. Nevertheless, thanks to our philanthropic and educational work in China, our willingness to forgo our share of the Boxer indemnity, and our government's repeated expressions of goodwill, we came to think of the United States as China's close friend and benefactor.



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Thus, on the eve of Pearl Harbor, although all our sympathies lay with China, we characteristically continued normal relations with Japan. The Japanese attack forced a change in our policies, but it was still impossible to give China much military help. In the first months of the war, there was no matériel to spare; and later it was all but impossible to get supplies to China's isolated armies. Most important, Europe took clear priority over Asia in the Allies' master plan for the war; and in Asia, by 1943 the island-hopping strategy obviously had replaced the strategy of attacking Japan through China. In military terms, China was a sideshow.

To compensate Chiang Kai-shek politically and to keep China actively in the war, Roosevelt pushed China's recognition as one of the Big Four over British objections, and dramatically terminated the unequal treaties in 1943. In these moves, Roosevelt had the enthusiastic support of the American public, which felt that America had done too little for China in the past and which saw the Generalissimo and Madame Chiang as heroic allies against the Japanese aggressor. But once again, United States policy, in its generosity and optimism, did not necessarily reflect the realities of the situation.

While we were committing ourselves to Chinese greatness under Chiang, the Nationalists were becoming increasingly ineffective. Shocking stories of corruption and dictatorial high-handedness came out of Chungking. Friction between the Nationalists and the Communists threatened to erupt into civil war. Chiang also hinted that unless American aid were forthcoming on Chinese terms, China might be forced to make a separate peace, thereby releasing large Japanese forces. The almost unopposed Japanese offensive into the interior of south China in 1944 seemed to confirm all these fears.

By October 1944, when General Joseph W. Stilwell, who favored a tough quid pro quo policy toward Chiang, was recalled at the Generalissimo's insistence, General Patrick J. Hurley had already arrived in China. He expressed clearly the goals of American policy: to keep China in the war, to support Chiang and the National Government, to persuade Chiang to undertake certain reforms, and to promote the unity and democracy to which all Chinese parties proclaimed their dedication. It is clear now that these goals were irreconcilable, for if there was no possibility of withdrawing our support from Chiang, there was no way of getting him to make changes he did not choose to make. America's role as mediator was compromised for the same reason. But this was far from clear at the time, except to those who knew the situation in China most intimately. Americans in 1944-45 were in substantial agreement that China policy, broadly speaking, was being ade-

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quately handled. This consensus lasted until well after the war; even Hurley's parting broadside (pp. 581-84) failed to shake it.

Partisanship on the China issue did not really begin until after the Congressional elections of November 1946, which put Republican majorities into both the Senate and the House and marked the low point of the Truman Administration's influence. In January 1947, General George C. Marshall, who had succeeded General Hurley as the President's Special Representative in China, reported the failure of his efforts to arrange a peaceful settlement, and returned home to become Secretary of State. The Republicans—anticipating the Presidency in 1948—used their majorities in Congress to exert an increasingly powerful influence on foreign policy. A group of Congressmen (led by William Knowland and Styles Bridges in the Senate, and by Walter Judd in the House) called for increased aid to the Nationalists in their conflict against the Chinese Communists. Nothing could alter their belief in the greatness of Chiang Kai-shek, or their conviction that the Chinese Communists were Russian puppets.

During 1947 and 1948, the Republicans used the threat of torpedoing the Marshall Plan for the recovery of Europe as a way of getting support for China. Among other things, they argued that if a strategy of massive foreign aid was appropriate to Europe (i.e., Greece), it should also be applied in Asia (i.e., China). So long as this balance of power existed on Capitol Hill, the Administration felt it necessary to make cautious concessions on the China front in order to move ahead with the rest of its foreign program.

Marshall, who was convinced that only all-out military intervention could save Chiang, favored a policy of quiet disengagement from China. Not only were America's resources insufficient for military intervention in his opinion, but the American people would not sanction such a course. And yet disengagement had almost as high a price, thanks not only to the embattled political situation in Washington, but to the accumulated weight of past American relations with China. How could we simply abandon a traditional friend, an ally who had suffered so long, a member of the Big Four by virtue of our own insistence? Marshall wavered, then moved from quiet disengagement back to limited commitment. The principal concessions of the Administration were the resumption of arms shipments to the Chinese Nationalists in early 1947, the dispatch of the Wedemeyer mission later that year, and the China Aid Act of April 1948.

This unstable situation lasted until the unexpected Democratic victory in the 1948 election. With both houses of Congress once more in Democratic hands, the Administration no longer had to buy Repub-



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lican support for its legislative program at the cost of concessions on China. Instead of reducing partisanship on the China issue, however, the Democratic victory only heightened it. Earlier the Republicans had been overconfident and a little complacent; now, in the bitterness of defeat, they sought to draw blood wherever they could.

As the plight of the Nationalists worsened, Republican attacks on Administration policy became more frequent and more heated. By now, too, a new note had been added—the question of Communist influence on China policy in the State Department. In 1947, the Truman Administration had begun a program of security investigations that it hoped to keep confidential, but a number of sensational cases were receiving publicity all during 1948. Eleven Communist leaders were trading blows with Judge Harold R. Medina in a Smith Act trial in New York City; Judith Coplon of the Justice Department, allegedly a Communist, was under indictment for conspiracy; Klaus Fuchs had confessed to atomic espionage on behalf of the Soviet Union; and the ex-Communist Whittaker Chambers was describing his conspiratorial relations with Alger Hiss, a high official of the State Department. There had been sporadic charges made earlier against certain career China specialists, beginning with Hurley's letter of resignation in 1945, but by 1949 the atmosphere had grown feverish. This was the immediate background for Senator Joseph McCarthy's notorious effort, beginning in early 1950, to discredit the State Department as a whole.

The White Paper was thus published in the midst of acrimonious controversy over United States China policy, the containment of Communism abroad, and the fear of subversion at home.

The idea of a White Paper may have first been suggested by middle-level officers in the State Department's Office of Far Eastern Affairs. Secretary of Defense James V. Forrestal recorded in his diary that at a conference held on November 26, 1948, "Marshall read a paper from some office people in the State Department, who advocated going to the American public now to explain the inadequacies of the Chiang Kai-shek government." Marshall went on to say that he had decided, with the President's approval, to reject this suggestion because he felt it would administer the *coup de grâce* to Chiang.<sup>1</sup> The idea persisted, however, and the following spring, after Dean Acheson's appointment as Secretary of State, Acheson obtained Truman's approval to go ahead with the preparation of a White Paper on China.

When Acheson said later that the White Paper had been published in the belief that "the disasters had already overtaken the Nationalist

<sup>1</sup> Walter Millis, ed., *The Forrestal Diaries* (New York: Viking, 1951), p. 534.



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government,"<sup>2</sup> he meant that the White Paper could not have hastened a collapse that was already complete. By implication, the decision to publish the White Paper reflected the feeling that since we could no longer effectively influence events in China, we should not be entangled in them. This was the agonizing decision Marshall had shrunk from making a year earlier, when there may still have been grounds for hoping that a Nationalist collapse could be averted. By the spring of 1949, such grounds existed no longer. The Nationalist cause was in ruins: in January, Chiang Kai-shek quit the Presidency and Peiping fell; in April, Communist troops crossed the Yangtze without opposition, and peacefully occupied Shanghai a few days later.

The directive from President Truman and Secretary Acheson to the compilers of the White Paper called for a completely objective record. Yet the Administration plainly hoped this record would show that we had done as much as we could, that our course had been basically correct, and that the impending fall of China to the Communists was in no way attributable to American policy. The White Paper was issued to counter largely Republican criticism. In Truman's words, "The role of this government in its relations with China has been subject to considerable misrepresentation, distortion, and misunderstanding. Some of these attitudes arose because this government was reluctant to reveal certain facts . . ."<sup>3</sup> Truman believed his two goals—objectivity and justification—were compatible. His critics, as it turned out, found the White Paper neither objective nor convincing.

In overall charge of the project was W. Walton Butterworth, who was concurrently Director of the Office of Far Eastern Affairs and Acting Assistant Secretary of State for Far Eastern Affairs. Because of the weight of his duties, Butterworth delegated the actual preparation of the White Paper to his division officers, several of whom he detailed to full-time work on the project. Beginning about March 1949, the White Paper became a round-the-clock effort for those involved. Most of the work of writing and editing was done by five or six officers with recent and extensive experience in China.<sup>4</sup> Only materials in the files of the Department of State were used. To have searched for and sought the release of documents in other agencies—especially the former War Department—would have greatly delayed publication of the White Paper, and Acheson was anxious that it be issued as soon as possible.

<sup>2</sup> U.S. Senate, Committee on Armed Services and Committee on Foreign Relations, *Hearings on the Military Situation in the Far East*, 82d Cong., 1st Sess. (1951), p. 1770.

<sup>3</sup> Department of State, *Bulletin*, Aug. 15, 1949, p. 237.

<sup>4</sup> Many others helped in the preparation of the document, particularly in the Division of Historical Policy Research under G. Bernard Noble, but unless one counts archivists, secretaries, and clerks, the total number was far less than the eighty persons alleged by the journalist Arthur Krock.

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This complete reliance on State Department files later led to charges that the White Paper was inadequate in its coverage.

In late June 1949, when the White Paper was nearly finished, Acheson asked Ambassador-at-Large Philip C. Jessup to read the document and suggest changes in it. Jessup, a professor of international law with a distinguished career at Columbia, was at that time the United States representative to the United Nations General Assembly and had been working on negotiations concerning the Berlin blockade. Later, during McCarthy's attacks on Jessup, the erroneous impression was given that the White Paper was largely his creation. Actually, the changes he suggested were few. Jessup did have an active hand, however, in preparing Acheson's Letter of Transmittal, the most controversial document in the volume. The letter subsequently went through many hands and many drafts before Acheson finally reworked it to suit himself.

As one might expect, the White Paper is composed primarily of documents and excerpts from documents, nearly all of which were highly classified before the White Paper was published. This preponderance is greater than appears at first sight, because even the narrative section contains long quotations from documents. Although the period of special reference is from 1944 to 1949, nearly one-fifth of the volume deals with the century from 1844 to 1943. There is very heavy emphasis—about 40 per cent of the total—on 1947 and 1948 (there are only a very few documents dating from early 1949). The volume's coverage is least extensive for 1944 and 1945.<sup>5</sup> Originally scheduled for release at the end of July, the White Paper was held up for about a week by printing difficulties. Because of the rush to publish, no index was prepared. The White Paper was released to the public on August 5, 1949, at a price of three dollars.

In issuing the White Paper, the Administration was proceeding in the belief—or the hope—that the record would speak for itself. Though its principal significance lay in domestic politics, one could expect the White Paper to have a very pronounced impact on both parties in China. Let us consider this impact briefly before turning to its reception in the United States.

The Chinese Communists made the White Paper the center of their first mass anti-American campaign. There had been much Communist-inspired criticism of the United States in the past, but there remained in

<sup>5</sup> Extensive and fascinating new documentation covering 1944 is now available in Department of State, *Foreign Relations of the United States, 1944, Vol. VI: China* (Washington, D.C., 1967), 1,206 pp. Similar volumes covering 1941, 1942, and 1943 were published earlier.



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China considerable reservoirs of good feeling, particularly among the intellectuals and bourgeoisie in the cities. These reservoirs the Party now set out to drain, as a part of the larger movement to eliminate Western influence from China.

The last five articles in Volume IV of Mao's *Selected Works* denounce the United States in general and the White Paper in particular. Mao's editors describe the goals of the campaign when they say that these pieces "exposed the imperialist nature of United States policy toward China" and "criticized the illusions about U.S. imperialism harbored by some of the bourgeois intellectuals."<sup>6</sup> These articles were the signal for an intense campaign that reached wherever Communist influence was felt. In Nanking, for example, during more than a month following Mao's denunciation, only one issue of the Party paper failed to attack the White Paper, and sometimes additional pages were needed for this purpose. Mass rallies, well-attended by students and American-trained intellectuals, were held in all cities under Communist control.

The campaign sought to discredit the United States for everything it had done in China since the Treaty of Wanghia in 1844, and especially for its recent actions. The Chinese Communists did not find it necessary, or desirable, to translate the White Paper. Instead, they concentrated almost entirely on extracts from Acheson's Letter of Transmittal: the amount of aid given to the Nationalists; the assertion that the United States had done all it could to support Chiang; the claim that the "Communist leaders have foresworn their Chinese heritage" and are subservient to Russia; and above all, the statement that the United States should encourage developments to "throw off the foreign yoke."<sup>7</sup>

In this campaign, John Leighton Stuart, a former president of Yenching University, was particularly singled out, both as our last ambassador on the mainland, and also because he represented so well all that was finest in the American philanthropic and educational tradition in China. In "Farewell, Leighton Stuart!" Mao denounced him as one who "used to pretend to love both the United States and China." The article ends venomously: "Leighton Stuart has departed and the White Paper has arrived. Very good. Very good. Both events are worth celebrating."<sup>8</sup>

In Nationalist circles, the public and official reaction to the White Paper was surprisingly mild. When it became known, late in July, that

<sup>6</sup> Mao Tse-tung, *Selected Works* (Peking: Foreign Languages Press, 1961), IV, 426.

<sup>7</sup> Deliberately or not, one phrase (on p. xvi) was usually mistranslated in such a way that the United States appeared to be calling on Western-trained Chinese to revolt: "ultimately the profound civilization and the democratic individualism [the Communist press here translates 'democratic individualists'] of China will reassert themselves and she will throw off the foreign yoke."

<sup>8</sup> Mao, *Selected Works*, IV, 439.



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such a document was about to be published, V. K. Wellington Koo, the Chinese Ambassador, requested postponement. On August 6, he acknowledged that China might have been "guilty of acts of commission and omission in the past" but asserted that "mistakes have not been confined to my country." He stressed the common cause that China was making still with the United States for freedom from Communism.<sup>9</sup> In Canton, Acting President Li Tsung-jen's capital, there was anger and dismay. Officially, however, Foreign Minister George Yeh stated on August 16 that whereas the Nationalists took "serious exception" to the White Paper on many points, "it is not the intention of the Chinese Government to engage in controversy over past issues." He was glad to see, he said, that the two countries agreed completely on at least two points: that the Chinese Communists were "thorough Marxists and tools of Moscow," and that the Soviet Union had violated the Treaty of Friendship and Alliance with China.<sup>10</sup>

Indirectly, the White Paper probably had something to do with the later reforms in the Kuomintang. As Ch'en Ch'eng, then Governor of Taiwan and later Vice-President, said at the time, "The White Paper has awakened us; we must now start on the road to self-help. Hence the publication of the White Paper will not cause us harm."<sup>11</sup> Chiang Kai-shek, then in nominal retirement, made no public statement and advised against an official Nationalist effort to refute the White Paper. Behind the scenes, however, the Nationalists continued to seek United States military aid, and to press their cause through their advocates in this country.

The reaction in the United States was predictably impassioned. No one could assert—or tried to assert—that United States policy in China had been successful. The best the Administration could hope for was acceptance of the White Paper at face value. A few liberal publications, among them the *New Republic* and the *Washington Post*, accepted it on these terms, but their voices went almost unheard in the clamor of criticism. The White Paper was attacked both for the policies it described and as a record of the effort to carry out those policies.

The main charges against the White Paper as a historical document were overall bias, omission and distortion, and premature publication. According to an editorial in the *New York Times*, "This inquest on China is not the work of a serene and detached coroner but of a vitally interested party to the catastrophe." *Time*, speaking for the Luce publications, called it a "lawyer's brief." Patrick Hurley, a vitally interested party himself, denounced it as a "smooth alibi for the pro-

<sup>9</sup> *New York Times*, Aug. 8, 1949, p. 2.

<sup>10</sup> *Ibid.*, Aug. 17, 1949, p. 4.

<sup>11</sup> *Ibid.*, Aug. 8, 1949, p. 2.

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Communists in the State Department who have engineered the overthrow of our ally." Many argued that the Administration was trying to put all the blame on Chiang Kai-shek and assume none itself.

The State Department was also accused of deliberately omitting or distorting documents that did not support the Truman-Acheson policy. In the House, Walter Judd alleged sixteen instances of omission, falsification, or distortion. Acheson answered the allegations point by point, and repeated his assertion that the White Paper was a "fair and honest record"; the most important document referred to by Judd, he pointed out, was not held by the State Department and was thus not eligible for inclusion.<sup>12</sup> A few felt that the White Paper was slanted in the other direction. Owen Lattimore, soon to be himself the center of controversy, saw the White Paper as an effort to show "that in pursuit of impeccably anti-Russian aims the United States had engaged in as much intervention as the traffic could possibly bear."<sup>13</sup>

In handling the materials of history, each act of selection is also an act of judgment, and therefore the charge of bias is never completely answerable. But the charge that the White Paper was deliberately slanted is not substantiated by any materials that have since been made public. For the period from 1945 through 1948, the White Paper still stands as our most important single source for the study of United States relations with China.

The White Paper was also criticized for its timing. To some, the Nationalists were "still stubbornly squirming with life," and this document would undermine their efforts to stem the Communist tide. There were also those, including some within the State Department, who agreed with everything about the White Paper except its publication. They felt it was unnecessary and undignified for the United States to rush into public print with matters best handled behind closed doors, and with documents recently composed on the writers' assumption of official privacy.

On the level of policy, critics of the White Paper generally took the line that America's misguided or calculated failure to give Chiang Kai-shek the help he needed to beat the Chinese Communists was leading to Russian control of Asia. This charge broke down into a number of more specific charges: (1) that at Yalta the United States had sold China down the river to bribe Russia to enter a war we had already won; (2) that the Marshall mission's effort to form a coalition government in China had been designed to force the Nationalists into the lethal embrace of the Communists; (3) that in 1947 the Administration had sup-

<sup>12</sup> Judd made his charges on August 19. For Acheson's rebuttal, see Department of State, *Bulletin*, Sept. 5, 1949, pp. 350-52, 359.

<sup>13</sup> *The Nation*, Sept. 3, 1949, p. 223.



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pressed the Wedemeyer Report, which had recognized the Communist threat to Asia and had called for aid to the Nationalists; (4) that reasonable amounts of military aid, without American military participation except for advisers, would have enabled Chiang to defeat the Chinese Communists; (5) that disloyalty and pro-Communism in the State Department had an evil influence on our China policy.

Although most of these charges remain in some minds controversial to this day, some things seem clearer now than they did twenty years ago. While Yalta, for example, was surely one of Roosevelt's least auspicious exercises in personal diplomacy, the record shows that Russia's participation in the decisive struggle against Japan was still thought absolutely necessary. Furthermore, Chiang had explicitly requested the United States to act as mediator between China and Russia; in order to lure Stalin away from the Chinese Communists, he had offered to make some (not all) of the Yalta concessions that were later so bitterly assailed.

The unification of China by political means (that is, some form of multi-party or coalition government) was the announced aim of both the Nationalists and the Communists even before General Hurley arrived on the scene in 1944. Not only Marshall, but Hurley before him, tried to find some formula that both parties could agree on; indeed, Hurley himself was the principal drafter of a set of proposals for the Chinese Communists to present to the Nationalists.<sup>14</sup> He called its terms "eminently fair," adding that "if there is a breakdown in the parleys it will be the fault of the Government and not the Communists." So far as concessions to the Communist viewpoint are concerned, Hurley's proposal, which the Kuomintang found utterly unacceptable and which Hurley complained to Roosevelt "had not been treated with due consideration," far surpassed any proposal later made by Marshall.

Acheson's Letter of Transmittal stated that the Wedemeyer Report had not been released because it called for Russian participation in a five-power guardianship over Manchuria. But other considerations were probably equally compelling. One was General Wedemeyer's blunt indictment of Nationalist corruption and incompetence, which was about as sweeping in 1947 as the White Paper's two years later. Another was the self-contradictory nature of Wedemeyer's recommendations: he concluded that "until drastic political and economic reforms are undertaken, United States aid cannot accomplish its purpose," yet he called for extensive assistance to China "as early as practicable." A third was Wedemeyer's ill-considered proposal that aid be granted only if China requested advisers with considerable power in "specified economic and military fields." Chiang had never granted such powers in

<sup>14</sup> *Foreign Relations, 1944: China*, pp. 666-735, documents under file no. 1049; the two brief quotations in the next sentence are from p. 693 and p. 734.

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the past; had he done so now, as Marshall realized, it would have been a long step toward full-scale American involvement in the Chinese civil war.

As for the amount of American aid to China, the whole issue has a quality of unreality. Estimates of our aid to the Nationalist Government ranged from a low of \$110 million (Senators Bridges, Knowland, Pat McCarran, and Kenneth Wherry, and the Chinese Embassy in Washington) to a high of \$5.9 billion (Mao). The State Department (see pp. 1042-53) showed postwar aid of just over \$2 billion, about half of which was classed as military aid. To the Nationalists and their supporters, any amount of aid would have been insufficient if it failed to defeat the Communists. To those who opposed further military aid, the fall of the Kuomintang was the result of its own inadequacies; the waste of past aid showed that future aid would do no good, and nothing in Chiang's record warranted the risk of an open-ended American commitment of unforeseeable size.

Surely the ugliest and probably the most damaging aspect of the furor was the allegation of Communist influence in the State Department. McCarthy's charges finally proved baseless, but in the meantime lives and careers were ruined and lasting harm was done to the conduct of America's foreign policy. The reception of the White Paper instructed many government officials in the value of caution, and persuaded numbers of capable young men to seek careers elsewhere. Some of America's most able and best qualified China specialists were dismissed from the State Department, later to be offered reinstatement and back pay when it was shown that there was no case against them. Others were transferred to less sensitive positions, where often the road to advancement was blocked by their previous association with China. Some were persuaded to accept early retirement. In any case, their long experience and intimate knowledge of China were lost. Among the best known of these men were John Carter Vincent, John Stewart Service, and John Paton Davies. Their reports on China in the 1940's have stood the test of time; by contrast, what few criticisms might be made of their work now seem hardly more than cavils. Many of the reports for which they were later condemned were penetrating insights into Chinese political realities. They saw clearly, and warned their superiors, of the danger of tying the United States irrevocably to a regime that was rapidly discrediting itself and might well be unable to survive. For telling unpleasant truths about the Nationalists, they were later called Communists. Professor John K. Fairbank's tribute to them is no more than just: "These men were true China specialists and we have no one like them today [1967]. In our lifetime we shall never again get this much of a grasp of the Chinese scene."



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Almost alone in its judiciousness and insight was Walter Lippmann's reaction to the White Paper.<sup>15</sup> If Acheson was right that nothing the United States had done or left undone had affected the outcome in China (p. xvi), then, Lippmann asked, why did we continue so long and at such cost to support the side we knew was going to lose? At the time, he was one of the very few who saw and described Marshall's dilemma, which reflected in a modern form America's traditional inability to bring its China policy into line with its effective influence in China.

Both critics and supporters of the Truman Administration knew that the White Paper marked the end of an era, and both sides called for a thoroughgoing reappraisal of our Far Eastern policy. Just before the publication of the White Paper, Acheson announced that such a review had been initiated within the State Department, that top-level outside advice was being sought, and that close liaison would be maintained with Congress and other agencies of the executive branch. On October 6-8, 1949, at a closed-door session on Far Eastern policy in Washington some twenty-five China specialists, international businessmen, and public figures (including Marshall, George F. Kennan, and Harold E. Stassen) expressed their opinions on what course American policy should take.<sup>16</sup> Subsequently, the trend of policy, which with certain exceptions represented rather well the sense of these discussions, was to withhold recognition from the Communists while at the same time further dissociating the United States from the Nationalists. The United States also indicated it would regard any Chinese Communist military or political activity beyond the borders of China as a threat to peace.

This policy was plainly expressed in January 1950. In a series of statements, Truman and Acheson indicated that the United States would not provide military aid or advice to "the Chinese forces on Formosa," that we intended to keep "hands off," and that the island, having little strategic significance, lay outside our first line of defense in the Western Pacific. Criticism of the Administration reached a new pitch, fed now by McCarthy's charges, but the policy of disengagement remained in force.

Early in the morning of June 25, 1950, North Korea launched its invasion of South Korea. Truman reacted immediately through the United Nations. Two days later, on June 27, he sent the Seventh Fleet into the Straits of Formosa with orders to prevent any attack on the is-

<sup>15</sup> In the columns of the *New York Herald Tribune* on Sept. 6, 8, and 12, 1949.

<sup>16</sup> The transcript of the discussions is contained in U.S. Senate, Committee on the Judiciary, Subcommittee to Investigate the Administration of the Internal Security Act, *Hearings on the Institute of Pacific Relations*, 82d Cong., 1st Sess. (1951), pp. 1551-1682.

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land. Our present commitment to the Nationalist Government dates from that order. The Korean War thus brought to a sudden end the policy that the Administration had followed for two years, and committed us once again to involvement in the Chinese civil war.

Because history never repeats itself exactly, no two historical situations are entirely analogous. But a number of parallels between the more recent situation in Vietnam and the earlier situation in China are too striking to be ignored. In both situations, our recognition and support went to a regime with acknowledged shortcomings but to which there seemed to be no adequate alternative. In both there existed the elements of both civil war and international aggression, with a great debate about which was the dominant force. In both there were abundant predictions that limited aid and advice, without direct American military participation, would bring victory in a short period of time. And in both, withdrawal became more difficult as time went on. The obvious difference is that in Vietnam the decision was made to engage. In Vietnam, smaller in size and population than many Chinese provinces, what began as limited and indirect assistance has grown to a half million men and \$2 billion per month. In retrospect, it appears that Marshall saw clearly where further intervention would have led in China (p. 382): "The U.S. would have to be prepared virtually to take over the Chinese Government and administer its economic, military and governmental affairs. . . . It would involve this Government in a continuing commitment from which it would be practically impossible to withdraw, and it would very probably involve grave consequences to this nation by making of China an arena of international conflict."

These reflections lead us back to crucial questions, questions that the White Paper raises but cannot fully answer because America itself has not yet given the answers. If in China there was a gap between what we said and what we did, in Vietnam the United States has tried to close this gap not by expressing its goals in less sweeping terms but by pursuing them with vastly greater force. Are the goals of United States Asian policy justified? Is the United States able to achieve such goals? And at what point does the employment of force render meaningless the very goals it seeks? In China as in Vietnam, other issues may have seemed more immediate, but these questions persist. Parts of the answer may lie in a purblind anti-Communism, in the illusion of American omnipotence, and in the force of American self-righteousness. Other answers may lie in the cultural gap across the Pacific and our underestimation of the difficulties involved; and still other answers may suggest themselves to attentive readers of the record that follows. A partial answer is perhaps all we shall have in our time.



**THE CHINA WHITE PAPER**





*United States Relations With*

# China

With Special Reference  
to the Period 1944-1949

**BASED ON THE FILES OF THE DEPARTMENT OF STATE**



# Letter of Transmittal

DEPARTMENT OF STATE  
*Washington, July 30, 1949*

THE PRESIDENT: In accordance with your wish, I have had compiled a record of our relations with China, special emphasis being placed on the last five years. This record is being published and will therefore be available to the Congress and to the people of the United States.

Although the compilation is voluminous, it necessarily covers a relatively small part of the relations between China and the United States. Since the beginning of World War II, these relations have involved many Government departments and agencies. The preparation of the full historical record of that period is by no means yet complete. Because of the great current interest in the problems confronting China, I have not delayed publication until the complete analysis could be made of the archives of the National Military Establishment, the Treasury Department, the Lend-Lease Administration, the White House files and many other official sources. However, I instructed those charged with the compilation of this document to present a record which would reveal the salient facts which determined our policy toward China during this period and which reflect the execution of that policy. This is a frank record of an extremely complicated and most unhappy period in the life of a great country to which the United States has long been attached by ties of closest friendship. No available item has been omitted because it contains statements critical of our policy or might be the basis of future criticism. The inherent strength of our system is the responsiveness of the Government to an informed and critical public opinion. It is precisely this informed and critical public opinion which totalitarian governments, whether Rightist or Communist, cannot endure and do not tolerate.

The interest of the people and the Government of the United States in China goes far back into our history. Despite the distance and broad differences in background which separate China and the United States, our friendship for that country has always been intensified by

the religious, philanthropic and cultural ties which have united the two peoples, and has been attested by many acts of good will over a period of many years, including the use of the Boxer indemnity for the education of Chinese students, the abolition of extraterritoriality during the Second World War, and our extensive aid to China during and since the close of the war. The record shows that the United States has consistently maintained and still maintains those fundamental principles of our foreign policy toward China which include the doctrine of the Open Door, respect for the administrative and territorial integrity of China, and opposition to any foreign domination of China. It is deplorable that respect for the truth in the compilation of this record makes it necessary to publish an account of facts which reveal the distressing situation in that country. I have not felt, however, that publication could be withheld for that reason.

The record should be read in the light of conditions prevailing when the events occurred. It must not be forgotten, for example, that throughout World War II we were allied with Russia in the struggle to defeat Germany and Italy, and that a prime object of our policy was to bring Russia into the struggle against Japan in time to be of real value in the prosecution of the war. In this period, military considerations were understandably predominant over all others. Our most urgent purpose in the Far East was to defeat the common enemy and save the lives of our own men and those of our comrades-in-arms, the Chinese included. We should have failed in our manifest duty had we pursued any other course.

In the years since V-J Day, as in the years before Pearl Harbor, military considerations have been secondary to an earnest desire on our part to assist the Chinese people to achieve peace, prosperity and internal stability. The decisions and actions of our Government to promote these aims necessarily were taken on the basis of information available at the time. Throughout this tragic period, it has been fully realized that the material aid, the military and technical assistance, and the good will of the United States, however abundant, could not of themselves put China on her feet. In the last analysis, that can be done only by China herself.

Two factors have played a major role in shaping the destiny of modern China.

The population of China during the eighteenth and nineteenth centuries doubled, thereby creating an unbearable pressure upon the land. The first problem which every Chinese Government has had to face is that of feeding this population. So far none has succeeded. The Kuomintang attempted to solve it by putting many land-reform laws on the statute books. Some of these laws have failed, others have



been ignored. In no small measure, the predicament in which the National Government finds itself today is due to its failure to provide China with enough to eat. A large part of the Chinese Communists' propaganda consists of promises that they will solve the land problem.

The second major factor which has shaped the pattern of contemporary China is the impact of the West and of Western ideas. For more than three thousand years the Chinese developed their own high culture and civilization, largely untouched by outside influences. Even when subjected to military conquest the Chinese always managed in the end to subdue and absorb the invader. It was natural therefore that they should come to look upon themselves as the center of the world and the highest expression of civilized mankind. Then in the middle of the nineteenth century the heretofore impervious wall of Chinese isolation was breached by the West. These outsiders brought with them aggressiveness, the unparalleled development of Western technology, and a high order of culture which had not accompanied previous foreign incursions into China. Partly because of these qualities and partly because of the decay of Manchu rule, the Westerners, instead of being absorbed by the Chinese, introduced new ideas which played an important part in stimulating ferment and unrest.

By the beginning of the twentieth century, the combined force of overpopulation and new ideas set in motion that chain of events which can be called the Chinese revolution. It is one of the most imposing revolutions in recorded history and its outcome and consequences are yet to be foreseen. Out of this revolutionary whirlpool emerged the Kuomintang, first under the leadership of Dr. Sun Yat-sen, and later Generalissimo Chiang Kai-shek, to assume the direction of the revolution. The leadership of the Kuomintang was not challenged until 1927 by the Chinese Communist party which had been organized in the early twenties under the ideological impetus of the Russian revolution. It should be remembered that Soviet doctrine and practice had a measurable effect upon the thinking and principles of Dr. Sun Yat-sen, particularly in terms of economics and party organization, and that the Kuomintang and the Chinese Communists cooperated until 1927 when the Third International demanded a predominant position in the Government and the army. It was this demand which precipitated the break between the two groups. To a large extent the history of the period between 1927 and 1937 can be written in terms of the struggle for power between the Kuomintang and the Chinese Communists, with the latter apparently fighting a losing battle. During this period the Kuomintang made considerable progress in its efforts to unify the country and to build up the nation's

financial and economic strength. Somewhere during this decade, however, the Kuomintang began to lose the dynamism and revolutionary fervor which had created it, while in the Chinese Communists the fervor became fanaticism.

Perhaps largely because of the progress being made in China, the Japanese chose 1937 as the departure point for the conquest of China proper, and the goal of the Chinese people became the expulsion of a brutal and hated invader. Chinese resistance against Japan during the early years of the war compelled the unqualified admiration of freedom-loving peoples throughout the world. Until 1940 this resistance was largely without foreign support. The tragedy of these years of war was that physical and human devastation to a large extent destroyed the emerging middle class which historically has been the backbone and heart of liberalism and democracy.

In contrast also to the unity of the people of China in the war against Japan were the divided interests of the leaders of the Kuomintang and of the Chinese Communists. It became apparent in the early forties that the leaders of the Government, just as much as the Communist leaders, were still as preoccupied with the internal struggle for power as they were with waging war against Japan. Once the United States became a participant in the war, the Kuomintang was apparently convinced of the ultimate defeat of Japan and saw an opportunity to improve its position for a show-down struggle with the Communists. The Communists, for their part, seemed to see in the chaos of China an opportunity to obtain that which had been denied them before the Japanese war, namely, full power in China. This struggle for power in the latter years of the war contributed largely to the partial paralysis of China's ability to resist.

It was precisely here that two of the fundamental principles of United States policy in regard to China—noninterference in its internal affairs and support of its unity and territorial integrity—came into conflict and that one of them also conflicted with the basic interests of the Allies in the war against Japan. It seemed highly probable in 1943 and 1944 that, unless the Chinese could subordinate their internal interests to the larger interest of the unified war effort against Japan, Chinese resistance would become completely ineffective and the Japanese would be able to deprive the Allies of valuable bases, operating points and manpower in China at a time when the outcome of the war against Japan was still far from clear. In this situation and in the light of the paramount necessity of the most vigorous prosecution of the war, in which Chinese interests were equally at stake with our own, traditional concepts of policy had to be adapted to a new and unprecedented situation.



After Pearl Harbor we expanded the program of military and economic aid which we had inaugurated earlier in 1941 under the Lend-Lease Act. That program, described in chapter I of the attached record, was far from reaching the volume which we would have wished because of the tremendous demands on the United States from all theaters of a world-wide war and because of the difficulties of access to a China all of whose ports were held by the enemy. Nevertheless it was substantial.

Representatives of our Government, military and civilian, who were sent to assist the Chinese in prosecuting the war soon discovered that, as indicated above, the long struggle had seriously weakened the Chinese Government not only militarily and economically, but also politically and in morale. The reports of United States military and diplomatic officers reveal a growing conviction through 1943 and 1944 that the Government and the Kuomintang had apparently lost the crusading spirit that won them the people's loyalty during the early years of the war. In the opinion of many observers they had sunk into corruption, into a scramble for place and power, and into reliance on the United States to win the war for them and to preserve their own domestic supremacy. The Government of China, of course, had always been a one-party rather than a democratic government in the Western sense. The stresses and strains of war were now rapidly weakening such liberal elements as it did possess and strengthening the grip of the reactionaries who were indistinguishable from the war lords of the past. The mass of the Chinese people were coming more and more to lose confidence in the Government.

It was evident to us that only a rejuvenated and progressive Chinese Government which could recapture the enthusiastic loyalty of the people could and would wage an effective war against Japan. American officials repeatedly brought their concern with this situation to the attention of the Generalissimo and he repeatedly assured them that it would be corrected. He made, however, little or no effective effort to correct it and tended to shut himself off from Chinese officials who gave unpalatable advice. In addition to a concern over the effect which this atrophy of the central Chinese administration must have upon the conduct of the war, some American observers, whose reports are also quoted in the attached record, were concerned over the effect which this deterioration of the Kuomintang must have on its eventual struggle, whether political or military, with the Chinese Communists. These observers were already fearful in 1943 and 1944 that the National Government might be so isolating itself from the people that in the postwar competition for power it would prove itself impotent

to maintain its authority. Nevertheless, we continued for obvious reasons to direct all our aid to the National Government.

This was of course the period during which joint prosecution of the war against Nazi Germany had produced a degree of cooperation between the United States and Russia. President Roosevelt was determined to do what he could to bring about a continuance in the post-war period of the partnership forged in the fire of battle. The peoples of the world, sickened and weary with the excesses, the horrors, and the degradation of the war, shared this desire. It has remained for the postwar years to demonstrate that one of the major partners in this world alliance seemingly no longer pursues this aim, if indeed it ever did.

When Maj. Gen. Patrick J. Hurley was sent by President Roosevelt to Chungking in 1944 he found what he considered to be a willingness on the part of the National Government and the Chinese Communists to lay aside their differences and cooperate in a common effort. Already they had been making sporadic attempts to achieve this result.

Previously and subsequently, General Hurley had been assured by Marshal Stalin that Russia had no intention of recognizing any government in China except the National Government with Chiang Kai-shek as its leader. It may be noted that during the late war years and for a time afterwards Marshal Stalin reiterated these views to American officials. He and Molotov expressed the view that China should look to the United States as the principal possible source of aid. The sentiments expressed by Marshal Stalin were in large part incorporated in the Sino-Soviet treaty of 1945.

From the wartime cooperation with the Soviet Union and from the costly campaigns against the Japanese came the Yalta Agreement. The American Government and people awaited with intense anxiety the assault on the main islands of Japan which it was feared would cost up to a million American casualties before Japan was conquered. The atomic bomb was not then a reality and it seemed impossible that the war in the Far East could be ended without this assault. It thus became a primary concern of the American Government to see to it that the Soviet Union enter the war against Japan at the earliest possible date in order that the Japanese Army in Manchuria might not be returned to the homeland at the critical moment. It was considered vital not only that the Soviet Union enter the war but that she do so before our invasion of Japan, which already had been set for the autumn of 1945.

At Yalta, Marshal Stalin not only agreed to attack Japan within two or three months after V-E Day but limited his "price" with reference to Manchuria substantially to the position which Russia had



occupied there prior to 1904. We for our part, in order to obtain this commitment and thus to bring the war to a close with a consequent saving of American, Chinese and other Allied lives, were prepared to and did pay the requisite price. Two facts must not, however, be lost sight of in this connection. First, the Soviet Union when she finally did enter the war against Japan, could in any case have seized all the territories in question and considerably more regardless of what our attitude might have been. Second, the Soviets on their side in the Sino-Soviet Treaty arising from the Yalta Agreement, agreed to give the National Government of China moral and material support and moreover formalized their assurances of noninterference in China's internal affairs. Although the unexpectedly early collapse of Japanese resistance later made some of the provisions of the Yalta Agreement seem unnecessary, in the light of the predicted course of the war at that time they were considered to be not only justified but clearly advantageous. Although dictated by military necessity, the Agreement and the subsequent Sino-Soviet Treaty in fact imposed limitations on the action which Russia would, in any case, have been in a position to take.

For reasons of military security, and for those only, it was considered too dangerous for the United States to consult with the National Government regarding the Yalta Agreement or to communicate its terms at once to Chungking. We were then in the midst of the Pacific War. It was felt that there was grave risk that secret information transmitted to the Nationalist capital at this time would become available to the Japanese almost immediately. Under no circumstances, therefore, would we have been justified in incurring the security risks involved. It was not until June 15, 1945, that General Hurley was authorized to inform Chiang Kai-shek of the Agreement.

In conformity with the Russian agreement at Yalta to sign a treaty of friendship and alliance with Nationalist China, negotiations between the two nations began in Moscow in July 1945. During their course, the United States felt obliged to remind both parties that the purpose of the treaty was to implement the Yalta Agreement—no more, no less—and that some of the Soviet proposals exceeded its provisions. The treaty, which was signed on August 14, 1945, was greeted with general satisfaction both in Nationalist China and in the United States. It was considered that Russia had accepted definite limitations on its activities in China and was committed to withhold all aid from the Chinese Communists. On September 10, however, our embassy in Moscow cautioned against placing undue confidence in the Soviet observance of either the spirit or letter of the treaty. The

subsequent conduct of the Soviet Government in Manchuria has amply justified this warning.

When peace came the United States was confronted with three possible alternatives in China: (1) it could have pulled out lock, stock and barrel; (2) it could have intervened militarily on a major scale to assist the Nationalists to destroy the Communists; (3) it could, while assisting the Nationalists to assert their authority over as much of China as possible, endeavor to avoid a civil war by working for a compromise between the two sides.

The first alternative would, and I believe American public opinion at the time so felt, have represented an abandonment of our international responsibilities and of our traditional policy of friendship for China before we had made a determined effort to be of assistance. The second alternative policy, while it may look attractive theoretically and in retrospect, was wholly impracticable. The Nationalists had been unable to destroy the Communists during the 10 years before the war. Now after the war the Nationalists were, as indicated above, weakened, demoralized, and unpopular. They had quickly dissipated their popular support and prestige in the areas liberated from the Japanese by the conduct of their civil and military officials. The Communists on the other hand were much stronger than they had ever been and were in control of most of North China. Because of the ineffectiveness of the Nationalist forces which was later to be tragically demonstrated, the Communists probably could have been dislodged only by American arms. It is obvious that the American people would not have sanctioned such a colossal commitment of our armies in 1945 or later. We therefore came to the third alternative policy whereunder we faced the facts of the situation and attempted to assist in working out a *modus vivendi* which would avert civil war but nevertheless preserve and even increase the influence of the National Government.

As the record shows, it was the Chinese National Government itself which, prior to General Hurley's mission, had taken steps to arrive at a working agreement with the Communists. As early as September 1943 in addressing the Kuomintang Central Executive Committee, the Generalissimo said, "we should clearly recognize that the Communist problem is a purely political problem and should be solved by political means." He repeated this view on several occasions. Comprehensive negotiations between representatives of the Government and of the Communists, dealing with both military cooperation and civil administration, were opened in Sian in May 1944. These negotiations, in which Ambassador Hurley later assisted at the invitation of both parties between August 1944 and September 1945, continued



intermittently during a year and a half without producing conclusive results and culminated in a comprehensive series of agreements on basic points on October 11, 1945, after Ambassador Hurley's departure from China and before General Marshall's arrival. Meanwhile, however, clashes between the armed forces of the two groups were increasing and were jeopardizing the fulfillment of the agreements. The danger of wide-spread civil war, unless the negotiations could promptly be brought to a successful conclusion, was critical. It was under these circumstances that General Marshall left on his mission to China at the end of 1945.

As the account of General Marshall's mission and the subsequent years in chapters V and VI of the underlying record reveals, our policy at that time was inspired by the two objectives of bringing peace to China under conditions which would permit stable government and progress along democratic lines, and of assisting the National Government to establish its authority over as wide areas of China as possible. As the event proved, the first objective was unrealizable because neither side desired it to succeed: the Communists because they refused to accept conditions which would weaken their freedom to proceed with what remained consistently their aim, the communization of all China; the Nationalists because they cherished the illusion, in spite of repeated advice to the contrary from our military representatives, that they could destroy the Communists by force of arms.

The second objective of assisting the National Government, however, we pursued vigorously from 1945 to 1949. The National Government was the recognized government of a friendly power. Our friendship, and our right under international law alike, called for aid to the Government instead of to the Communists who were seeking to subvert and overthrow it. The extent of our aid to Nationalist China is set forth in detail in chapters V, VI, VII and VIII of the record and need not be repeated here. The National Government had in 1945, and maintained until the early fall of 1948, a marked superiority in manpower and armament over their rivals. Indeed during that period, thanks very largely to our aid in transporting, arming and supplying their forces, they extended their control over a large part of North China and Manchuria. By the time General Marshall left China at the beginning of 1947, the Nationalists were apparently at the very peak of their military successes and territorial expansion. The following year and a half revealed, however, that their seeming strength was illusory and that their victories were built on sand.

The crisis had developed around Manchuria, traditional focus of Russian and Japanese imperialism. On numerous occasions, Mar-

shal Stalin had stated categorically that he expected the National Government to take over the occupation of Manchuria. In the truce agreement of January 10, 1946, the Chinese Communists agreed to the movement of Government troops into Manchuria for the purpose of restoring Chinese sovereignty over this area. In conformity with this understanding the United States transported sizable government armies to the ports of entry into Manchuria. Earlier the Soviet Army had expressed a desire to evacuate Manchuria in December 1945, but had remained an additional two or three months at the request of the Chinese Government. When the Russian troops did begin their evacuation, the National Government found itself with extended lines of communications, limited rolling stock and insufficient forces to take over the areas being evacuated in time to prevent the entry of Chinese Communist forces, who were already in occupation of the countryside. As the Communists entered, they obtained the large stocks of matériel from the Japanese Kwantung Army which the Russians had conveniently "abandoned." To meet this situation the National Government embarked on a series of military campaigns which expanded the line of its holdings to the Sungari River. Toward the end of these campaigns it also commenced hostilities within North China and succeeded in constricting the areas held by the Communists.

In the spring of 1946 General Marshall attempted to restore peace. This effort lasted for months and during its course a seemingly endless series of proposals and counterproposals were made which had little effect upon the course of military activities and produced no political settlement. During these negotiations General Marshall displayed limitless patience and tact and a willingness to try and then try again in order to reach agreement. Increasingly he became convinced, however, that twenty years of intermittent civil war between the two factions, during which the leading figures had remained the same, had created such deep personal bitterness and such irreconcilable differences that no agreement was possible. The suspicions and the lack of confidence were beyond remedy. He became convinced that both parties were merely sparring for time, jockeying for military position and catering temporarily to what they believed to be American desires. General Marshall concluded that there was no hope of accomplishing the objectives of his mission.

Even though for all practical purposes General Marshall, by the fall of 1946, had withdrawn from his efforts to assist in a peaceful settlement of the civil war, he remained in China until January 1947. One of the critical points of dispute between the Government and the Communists had been the convocation of the National Assembly to write a new constitution for China and to bring an end to the period



of political tutelage and of one-party government. The Communists had refused to participate in the National Assembly unless there were a prior military settlement. The Generalissimo was determined that the Assembly should be held and the program carried out. It was the hope of General Marshall during the late months of 1946 that his presence in China would encourage the liberal elements in non-Communist China to assert themselves more forcefully than they had in the past and to exercise a leavening influence upon the absolutist control wielded by the reactionaries and the militarists. General Marshall remained in China until the Assembly had completed its work. Even though the proposed new framework of government appeared satisfactory, the evidence suggested that there had been little shift in the balance of power.

In his farewell statement, General Marshall announced the termination of his efforts to assist the Chinese in restoring internal peace. He described the deep-seated mutual suspicion between the Kuomintang and the Chinese Communist Party as the greatest obstacle to a settlement. He made it clear that the salvation of China lay in the hands of the Chinese themselves and that, while the newly adopted constitution provided the framework for a democratic China, practical measures of implementation by both sides would be the decisive test. He appealed for the assumption of leadership by liberals in and out of the Government as the road to unity and peace. With these final words he returned to Washington to assume, in January 1947, his new post as Secretary of State.

As the signs of impending disaster multiplied, the President in July 1947, acting on the recommendation of the Secretary of State, instructed Lt. Gen. Albert C. Wedemeyer to survey the Chinese scene and make recommendations. In his report, submitted on September 19, 1947, the General recommended that the United States continue and expand its policy of giving aid to Nationalist China, subject to these stipulations:

1. That China inform the United Nations of her request for aid.
2. That China request the United Nations to bring about a truce in Manchuria and request that Manchuria be placed under a Five-Power guardianship or a trusteeship.
3. That China utilize her own resources, reform her finances, her Government and her armies, and accept American advisers in the military and economic fields.

General Wedemeyer's report, which fully recognized the danger of Communist domination of all China and was sympathetic to the problems of the National Government, nevertheless listed a large number

of reforms which he considered essential if that Government were to rehabilitate itself.

It was decided that the publication at that time of a suggestion for the alienation of a part of China from the control of the National Government, and for placing that part under an international administration to include Soviet Russia, would not be helpful. In this record, the full text of that part of General Wedemeyer's report which deals with China appears as an annex to chapter VI.

The reasons for the failures of the Chinese National Government appear in some detail in the attached record. They do not stem from any inadequacy of American aid. Our military observers on the spot have reported that the Nationalist armies did not lose a single battle during the crucial year of 1948 through lack of arms or ammunition. The fact was that the decay which our observers had detected in Chungking early in the war had fatally sapped the powers of resistance of the Kuomintang. Its leaders had proved incapable of meeting the crisis confronting them, its troops had lost the will to fight, and its Government had lost popular support. The Communists, on the other hand, through a ruthless discipline and fanatical zeal, attempted to sell themselves as guardians and liberators of the people. The Nationalist armies did not have to be defeated; they disintegrated. History has proved again and again that a regime without faith in itself and an army without morale cannot survive the test of battle.

The record obviously can not set forth in equal detail the inner history and development of the Chinese Communist Party during these years. The principal reason is that, while we had regular diplomatic relations with the National Government and had the benefit of voluminous reports from our representatives in their territories, our direct contact with the Communists was limited in the main to the mediation efforts of General Hurley and General Marshall.

Fully recognizing that the heads of the Chinese Communist Party were ideologically affiliated with Moscow, our Government nevertheless took the view, in the light of the existing balance of forces in China, that peace could be established only if certain conditions were met. The Kuomintang would have to set its own house in order and both sides would have to make concessions so that the Government of China might become, in fact as well as in name, the Government of all China and so that all parties might function within the constitutional system of the Government. Both internal peace and constitutional development required that the progress should be rapid from one party government with a large opposition party in armed rebellion, to the participation of all parties, including the moderate non-communist elements, in a truly national system of government.



None of these conditions has been realized. The distrust of the leaders of both the Nationalist and Communist Parties for each other proved too deep-seated to permit final agreement, notwithstanding temporary truces and apparently promising negotiations. The Nationalists, furthermore, embarked in 1946 on an over-ambitious military campaign in the face of warnings by General Marshall that it not only would fail but would plunge China into economic chaos and eventually destroy the National Government. General Marshall pointed out that though Nationalist armies could, for a period, capture Communist-held cities, they could not destroy the Communist armies. Thus every Nationalist advance would expose their communications to attack by Communist guerrillas and compel them to retreat or to surrender their armies together with the munitions which the United States has furnished them. No estimate of a military situation has ever been more completely confirmed by the resulting facts.

The historic policy of the United States of friendship and aid toward the people of China was, however, maintained in both peace and war. Since V-J Day, the United States Government has authorized aid to Nationalist China in the form of grants and credits totaling approximately 2 billion dollars, an amount equivalent in value to more than 50 percent of the monetary expenditures of the Chinese Government and of proportionately greater magnitude in relation to the budget of that Government than the United States has provided to any nation of Western Europe since the end of the war. In addition to these grants and credits, the United States Government has sold the Chinese Government large quantities of military and civilian war surplus property with a total procurement cost of over 1 billion dollars, for which the agreed realization to the United States was 232 million dollars. A large proportion of the military supplies furnished the Chinese armies by the United States since V-J Day has, however, fallen into the hands of the Chinese Communists through the military ineptitude of the Nationalist leaders, their defections and surrenders, and the absence among their forces of the will to fight.

It has been urged that relatively small amounts of additional aid—military and economic—to the National Government would have enabled it to destroy communism in China. The most trustworthy military, economic, and political information available to our Government does not bear out this view.

A realistic appraisal of conditions in China, past and present, leads to the conclusion that the only alternative open to the United States was full-scale intervention in behalf of a Government which had lost the confidence of its own troops and its own people. Such intervention would have required the expenditure of even greater sums

than have been fruitlessly spent thus far, the command of Nationalist armies by American officers, and the probable participation of American armed forces—land, sea, and air—in the resulting war. Intervention of such a scope and magnitude would have been resented by the mass of the Chinese people, would have diametrically reversed our historic policy, and would have been condemned by the American people.

It must be admitted frankly that the American policy of assisting the Chinese people in resisting domination by any foreign power or powers is now confronted with the gravest difficulties. The heart of China is in Communist hands. The Communist leaders have fore-sworn their Chinese heritage and have publicly announced their subservience to a foreign power, Russia, which during the last 50 years, under czars and Communists alike, has been most assiduous in its efforts to extend its control in the Far East. In the recent past, attempts at foreign domination have appeared quite clearly to the Chinese people as external aggression and as such have been bitterly and in the long run successfully resisted. Our aid and encouragement have helped them to resist. In this case, however, the foreign domination has been masked behind the façade of a vast crusading movement which apparently has seemed to many Chinese to be wholly indigenous and national. Under these circumstances, our aid has been unavailing.

The unfortunate but inescapable fact is that the ominous result of the civil war in China was beyond the control of the government of the United States. Nothing that this country did or could have done within the reasonable limits of its capabilities could have changed that result; nothing that was left undone by this country has contributed to it. It was the product of internal Chinese forces, forces which this country tried to influence but could not. A decision was arrived at within China, if only a decision by default.

And now it is abundantly clear that we must face the situation as it exists in fact. We will not help the Chinese or ourselves by basing our policy on wishful thinking. We continue to believe that, however tragic may be the immediate future of China and however ruthlessly a major portion of this great people may be exploited by a party in the interest of a foreign imperialism, ultimately the profound civilization and the democratic individualism of China will reassert themselves and she will throw off the foreign yoke. I consider that we should encourage all developments in China which now and in the future work toward this end.

In the immediate future, however, the implementation of our historic policy of friendship for China must be profoundly affected by current developments. It will necessarily be influenced by the degree



to which the Chinese people come to recognize that the Communist regime serves not their interests but those of Soviet Russia and the manner in which, having become aware of the facts, they react to this foreign domination. One point, however, is clear. Should the Communist regime lend itself to the aims of Soviet Russian imperialism and attempt to engage in aggression against China's neighbors, we and the other members of the United Nations would be confronted by a situation violative of the principles of the United Nations Charter and threatening international peace and security.

Meanwhile our policy will continue to be based upon our own respect for the Charter, our friendship for China, and our traditional support for the Open Door and for China's independence and administrative and territorial integrity.

Respectfully yours,

DEAN ACHESON



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## CHAPTER I

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1844	
July 3	Treaty of Wanghia, first Sino-U.S. treaty (Cushing Treaty)
1858	
June 18	Treaty of Tientsin (Reed Treaty)
1868	
July 28	Treaty of Washington (Burlingame Treaty)
1899	
Sept.-Mar. 1900	Secretary Hay's Open Door notes
1900	
July 3	U.S. policy on preservation of Chinese territorial and administrative entity announced
1903	
Oct. 8	Sino-U.S. Commercial Treaty signed at Shanghai
1905	
Sept. 5	Treaty of Portsmouth, ending Russo-Japanese War
1908	
Nov. 30	Root-Takahira Agreement
1909	
Nov.-Dec.	Knox "neutralization" of Manchurian railways proposal
1911	
Oct. 10	Start of Chinese Revolution
1912	
Feb. 12	Abdication of Manchu dynasty and establishment of Chinese Republic
1915	
Mar. 13	Secretary Bryan's statement of opposition to Japanese Twenty-One Demands on China
May 11	Secretary Bryan's statement of nonrecognition of Sino-Japanese agreements impairing American treaty rights in China
1917	
Aug. 14	Chinese declaration of war against Germany
Nov. 2	Lansing-Ishii Agreement

1921

May

Foundation meeting of Chinese Communist Party held at Shanghai

1922

Feb. 6

Nine-Power Treaty signed at Washington Conference

1927

Jan. 27

Secretary Kellogg's statement expressing sympathy with Chinese nationalism and U.S. policy of noninterference in Chinese internal affairs

Apr.-July

Development of Kuomintang-Communist breach

1928

June 8

Peking taken by Nationalist forces led by Yen Hsi-shan

July 6

Unification of China under Kuomintang announced by Chiang Kai-shek

July 25

U.S. recognition of the National Government of the Republic of China

1931

Sept. 18

Beginning of Japanese conquest of Manchuria

1932

Jan. 7

Secretary Stimson's announcement of policy of nonrecognition of territorial changes brought about by force

Feb. 23

Secretary Stimson's letter to Senator Borah outlining U.S. policy in the Sino-Japanese dispute

1934

Apr. 29

U.S., in note to Japan, reasserted its treaty rights in China

July 7

U.S. protest to Japan regarding the creation of a petroleum monopoly in Manchuria

1936

May 5

Draft Chinese Constitution promulgated

Dec. 12

Generalissimo Chiang Kai-shek "arrested" by Chang Hsueh-liang at Sian, Shensi

Dec. 25

Generalissimo Chiang released from Sian "captivity"

1937

July 7

Start of Japan's undeclared war on China

Sept. 22

Manifesto of Central Committee of Communist Party regarding formation of "united front" with Kuomintang

Sept. 23

Statement by Generalissimo Chiang Kai-shek welcoming manifesto

Oct. 5

President Roosevelt's "quarantine" speech in Chicago

Nov. 3-24

Brussels Conference convened in virtue of article VII of Nine-Power Treaty of 1922

1938

Oct. 6

U.S. protest regarding Japanese nonobservance of the Open Door in China

1939

July 26

U.S. gave notice of termination of Japan-U.S. Commercial Treaty of Feb. 21, 1911



- 1940  
Mar. 30 U.S. denounced setting up of Wang Ching-wei regime in Nanking
- 1941  
May 6 China declared eligible by President Roosevelt for lend-lease assistance  
July 26 United States froze Japanese assets in United States  
Dec. 7 Japanese attack upon Pearl Harbor  
Dec. 8 U.S. declaration of war against Japan
- 1942  
Jan. 29-30 Soong-Stimson exchange of notes regarding appointment of General Stilwell as Chief of Staff of Generalissimo Chiang's Joint Staff, and United States Army Representative in China  
Feb. 2 Letter orders issued by General Marshall ordering General Stilwell to Chungking to serve under Supreme Command of Generalissimo Chiang  
Feb. 7 U.S. loan to China of \$500,000,000 authorized  
Mar. 6 General Stilwell reported to Generalissimo Chiang
- 1943  
Jan. 11 Sino-U.S. treaty providing for relinquishment of American extraterritoriality signed at Washington  
Oct. 30 Declaration of Four Nations on General Security signed by U.K., U.S., U.S.S.R. and China at Moscow  
Nov. 22-26 Cairo Conference of Roosevelt, Churchill and Chiang Kai-shek  
Nov. 28-  
Dec. 1 Tehran Conference of Roosevelt, Churchill and Stalin  
Dec. 1 Cairo Declaration issued by U.S., U.K. and China  
Dec. 17 Repeal by U.S. Congress of discriminatory legislation regarding Chinese immigration and naturalization
- 1944  
June Vice President Henry A. Wallace's mission to China  
Aug. 18 General Patrick J. Hurley appointed Personal Representative of President Roosevelt to China  
Aug. 31 General Hurley's conversation with Molotov in Moscow  
Oct. 24 Recall of General Stilwell from China announced
- 1945  
Jan. 8 General Hurley presented credentials as American Ambassador to China to Generalissimo Chiang Kai-shek  
Feb. 4-11 Yalta Conference of Roosevelt, Churchill and Stalin  
Feb. 11 Yalta Agreement signed by Roosevelt, Churchill and Stalin  
Apr. 15 Ambassador Hurley conferred with Stalin and Molotov at Moscow regarding settlement of Kuomintang-Communist question  
May 8 V-E Day  
July 17-  
Aug. 1 Berlin Conference of U.S., U.K. and U.S.S.R.  
July 26 Potsdam Declaration calling upon Japan to surrender unconditionally issued by U.S., U.K., and China  
Aug. 9 Soviet Union entered war against Japan  
Aug. 14 Surrender of Japan

1945

- Aug. 14 Sino-Soviet Treaty of Friendship and Alliance and related agreements signed at Moscow
- Oct. 11 Summary of National Government-Communist conversations issued
- Nov. 27 Resignation of Ambassador Hurley announced
- Nov. 27 Appointment of Gen. George C. Marshall as President Truman's Special Representative to China announced
- Dec. 15 Statement of United States policy on China issued by President Truman
- Dec. 16-27 Moscow Conference of Foreign Ministers of U.S., U.K., and U.S.S.R.

1946

- Jan. 7 First meeting of the Committee of Three
- Jan. 10 Committee of Three agreement regarding cessation of hostilities
- Jan. 10-31 Meeting of the Political Consultative Conference
- Jan. 13 Effective date of the cessation-of-hostilities agreement
- Jan. 14 Executive Headquarters at Peiping began official functions
- Jan. 31 Resolutions adopted by Political Consultative Conference
- Feb. 25 Agreement reached on basic plan for military reorganization and integration of Communist forces into the National Army
- Mar. 1-17 Meeting of the Kuomintang Central Executive Committee
- Mar. 11 General Marshall left China for U.S. to report to the President
- Apr. 18 General Marshall returned to China
- Apr. 18 Occupation of Changchun by Chinese Communist forces
- May 5 Transfer of National Government from Chungking to Nanking
- May 19 Occupation of Ssuningchieh by National Government troops
- May 23 Occupation of Changchun by National Government troops
- June 7 Beginning of truce period in Manchuria
- June 27 Joint China-U.S. Agricultural Mission commenced operations
- June 30 Expiration of the truce; negotiations at an apparent stalemate
- July 11 Senate confirmation of J. Leighton Stuart as American Ambassador to China
- July 29 Communist ambush of U.S. Marine convoy near Peiping
- Aug. 10 Joint statement on situation in China issued by General Marshall and Ambassador Stuart
- Aug. 30 Conclusion of Sino-American surplus-property sale agreement
- Oct. 11 Occupation of Kalgan by National Government troops
- Nov. 2 Sino-U. S. Treaty of Friendship, Commerce and Navigation signed at Nanking
- Nov. 15- Meeting of the National Assembly to adopt a Constitution
- Dec. 25
- Dec. 18 Statement by President Truman of American policy toward China
- 1947
- Jan. 6 General Marshall's recall announced
- Jan. 7 General Marshall's nomination as Secretary of State announced
- Jan. 29 U. S. announced termination of its connection with the Committee of Three and Executive Headquarters

## 1947

- Feb. 11 Chinese Government notified Communist delegation in Nan-  
king that its presence was no longer desired
- Feb. 28 Uprising in Taiwan
- Mar. 1 Reorganization of the Legislative Yuan and the Control Yuan  
announced
- Mar. 19 Occupation of Yen-an by National Government troops
- Apr. 17 Reorganization of the Executive Yuan and the State Council  
announced
- June 30 Extraordinary meeting of the Standing Committee of the  
Kuomintang Central Executive Committee
- July 9 President Truman instructed General Wedemeyer to proceed  
to China on a fact-finding mission
- Aug. 24 General Wedemeyer's statement on his departure from China
- Sept. 9 Fourth Plenary Session of the Kuomintang Central Executive  
Committee opened
- Sept. 19 General Wedemeyer submitted his report to the President
- Oct. 28 The Democratic League outlawed

## 1948

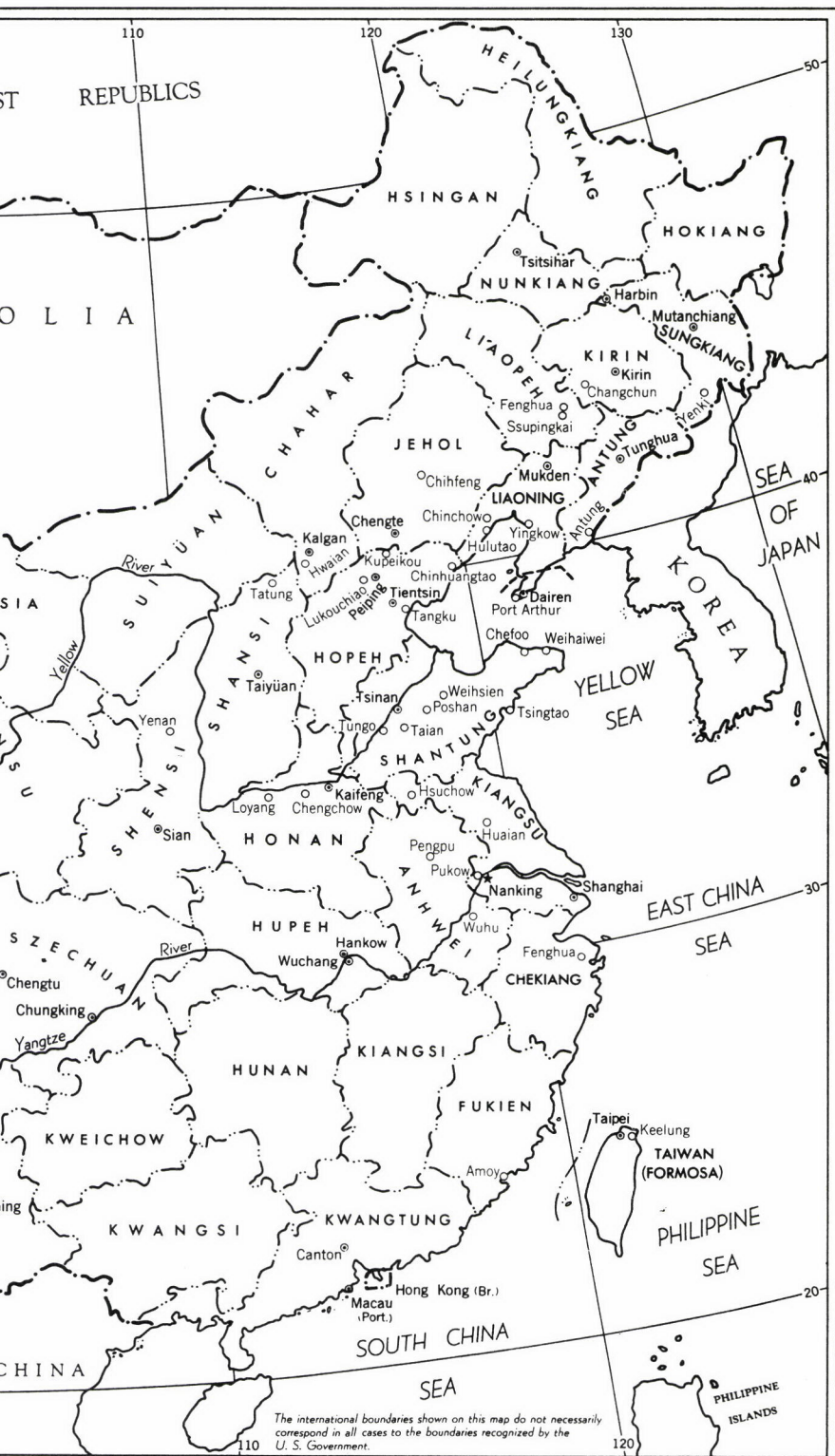
- Mar. 12 Occupation of Ssuningchieh by Chinese Communist forces
- Mar. 29 Meeting of the National Assembly
- Apr. 3 China Aid Act of 1948 approved by President Truman
- July 3 Agreement signed covering terms of American economic aid  
to China
- Aug. 5 Exchange of notes providing for establishment of Sino-Ameri-  
can Joint Commission on Rural Reconstruction in China
- Aug. 19 Economic reform decrees issued by National Government
- Sept. 23-24 Occupation of Tsinan by Chinese Communist forces
- Oct. 15 Occupation of Chinchow by Chinese Communist forces
- Oct. 20 Occupation of Changchun by Chinese Communist forces
- Nov. 1 Occupation of Mukden by Chinese Communist forces
- Dec. 1 Occupation of Hsuehchow by Chinese Communist forces
- Dec. 31 Formation of Sun Fo's cabinet

## 1949

- Jan. 1 New Year's messages by Generalissimo Chiang Kai-shek and  
Prime Minister Sun Fo
- Jan. 8 Chinese request for Big Four mediation
- Jan. 12 U.S. declination to act as an intermediary
- Jan. 15 Occupation of Tientsin by Chinese Communist forces
- Jan. 21 Chiang Kai-shek announced his decision to retire; Li Tsung-  
jen became Acting President
- Jan. 31 Occupation of Peiping by Chinese Communist forces
- Feb. 5 Most of the Chinese Government's offices moved to Canton
- Mar. 12 Ho Ying-chin became Prime Minister in Canton
- Mar. 24 Occupation of Taiyuan by Chinese Communist forces
- Apr. 14 Extension of China Aid Act of 1948
- Apr. 20 Crossing of Yangtze River by Communist forces
- May 16-17 Occupation of Hankow by Chinese Communist forces
- May 25 Occupation of Shanghai by Chinese Communist forces
- June 2 Occupation of Tsingtao by Chinese Communist forces
- June 3 Yen Hsi-shan became Prime Minister in Canton







The international boundaries shown on this map do not necessarily correspond in all cases to the boundaries recognized by the U. S. Government.





## CHAPTER I

# A Century of American Policy, 1844–1943

## I. INTRODUCTION

For more than half a century the policy of the United States toward China has been based on the twin principles of (1) equality of commercial opportunity, and (2) the maintenance of the territorial and administrative integrity and political independence of China. Although the United States has at times recognized the special relations between China and neighboring countries, it has also recognized and asserted that the domination of China by any one Power or any group of Powers is contrary to the interests both of China and of the United States. The United States has advocated a policy of noninterference in the internal affairs of China. The United States has taken the position that the Chinese people should be given time to develop those political institutions which would best meet their needs in the modern world. The United States has also sought to prevent third Powers from utilizing disturbances within China as an opportunity for individual or collective aggrandizement. The United States has long been interested in the creation of conditions which would permit the development of a stable Chinese political organism, and in its relations with China has supported the principle of peaceful settlement of disputes in accordance with the generally recognized precepts of international law.

## II. DEVELOPMENT OF BASIC AMERICAN POLICY

### EQUALITY OF COMMERCIAL OPPORTUNITY

During the nineteenth century United States policy toward China was expressed by treaties and ordinary diplomatic procedures designed to secure equality of trading rights in China. The fundamental principle underlying American relations with China—equality of commercial opportunity—was incorporated in the first treaty between the two Powers, the Treaty of Wanghia signed on July 3, 1844, in the

form of a most-favored-nation clause.<sup>1</sup> This provision guaranteed that whatever treaty rights other Powers gained with respect to trade, residence, religious activity, tariffs or other commercial regulations would automatically accrue to the United States. The most-favored-nation clause was retained in the subsequent commercial treaties negotiated with China in the nineteenth century, namely the Treaty of Tientsin of 1858<sup>2</sup> and the Burlingame Treaty of 1868.<sup>3</sup> The principle of equality of commercial opportunity worked well until the late 1890's, when new imperialistic pressures seemed to threaten a division of China into spheres of interest among the other Great Powers.

### ENUNCIATION OF THE OPEN DOOR POLICY

Under the circumstances the United States resorted to a new approach, using another formula to secure its objectives. The Open Door notes of Secretary of State John Hay to the Powers during the period from September to November 1899 gave concrete expression to the principle of equality of opportunity.<sup>4</sup> Hay asked the Powers involved in the struggle over China to give guarantees that in their respective "spheres of influence or interest" they would not interfere with the equality of rights of nationals of other countries in matters of tariffs, railroad charges, and harbor dues. The replies to these notes were somewhat equivocal or conditional, the Russian reply being the most evasive of all. Nevertheless the diplomatic language of the replies made it possible for Hay to announce to the world that the policy of the Open Door had been accepted, and that it was the governing policy in China.

The anti-foreign disturbances in China in 1900, usually referred to as the Boxer Rebellion, afforded the United States (which had participated with the other Powers in a joint expeditionary force sent to rescue the beleaguered legations in Peking) an opportunity to make a statement of policy which went a step beyond the Open Door notes of the preceding year. In a circular note to the participating Powers, dated July 3, 1900, Hay declared that the "policy of the Government of the United States is to seek a solution" of the difficulties in China which would "preserve Chinese territorial and administrative entity" and "safeguard for the world the principle of equal and impartial trade with all parts of the Chinese Empire."<sup>5</sup> Thus the principle of the maintenance of Chinese territorial and administrative entity be-

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<sup>1</sup> See annex 1.

<sup>2</sup> See annex 2.

<sup>3</sup> See annex 3.

<sup>4</sup> See annex 4.

<sup>5</sup> See annex 5.



came the policy of the United States. This policy was helpful in achieving a solution of the difficulties between China and the Powers arising from the destruction of property and loss of foreign lives in the course of the Boxer Rebellion. The terms of settlement of the incident were contained in the Protocol of Peking, signed September 7, 1901, which, among other things, required China to pay, over a period of years, an indemnity amounting to 333 million dollars. Of this the United States claimed only 25 million dollars, which proved to be more than adequate to indemnify American nationals. Under arrangements provided through Congressional action in 1908 and 1924 the United States remitted all Boxer indemnity payments not allocated to claimants. Altogether the United States returned approximately 18 million dollars to the Chinese Government, which placed the money in a trust fund for the education of Chinese youths in China and in the United States. On January 11, 1943, the United States yielded all further claims to indemnity payments.

#### EARLY EFFORTS TO MAINTAIN THE OPEN DOOR

Since the turn of the century the United States has sought to maintain, by diplomacy, the twin principles of equal commercial opportunity and Chinese territorial and administrative integrity on numerous occasions. At the same time the United States extended the Open Door doctrine by interpreting it to prohibit exclusive mining or railway privileges and commercial monopolies. These extensions were initially aimed largely at Russia, which was pushing down through Manchuria and threatening Chinese control over that vast territory. After the Russo-Japanese War, 1904-1905, the principles were turned more sharply against Japan, which had taken Russia's place in the southern half of Manchuria as a menace to Chinese territorial and administrative integrity.

When Russia endeavored through pressure upon China to obtain a privileged position in Manchuria, the United States circularized the Powers on February 1, 1902, protesting that such action was contrary to the Open Door policy. The American memorandum stated:

"An agreement by which China cedes to any corporation or company the exclusive right and privilege of opening mines, establishing railroads, or in any other way industrially developing Manchuria, can but be viewed with the gravest concern by the Government of the United States. It constitutes a monopoly, which is a distinct breach of the stipulations of treaties concluded between China and foreign powers, and thereby seriously affects the rights of American citizens; it restricts their rightful trade and exposes it to being discriminated against, interfered with, or otherwise jeopardized, and strongly tends



toward permanently impairing the sovereign rights of China in this part of the Empire, and seriously interferes with her ability to meet her international obligations. Furthermore, such concession on the part of China will undoubtedly be followed by demands from other powers for similar and equal exclusive advantages in other parts of the Chinese Empire, and the inevitable result must be the complete wreck of the policy of absolute equality of treatment of all nations in regard to trade, navigation, and commerce within the confines of the Empire.

"On the other hand, the attainment by one power of such exclusive privileges for a commercial organization of its nationality conflicts with the assurances repeatedly conveyed to this Government by the Imperial Russian Ministry of Foreign Affairs of the Imperial Government's intention to follow the policy of the Open Door in China, as advocated by the Government of the United States and accepted by all the treaty powers having commercial interests in that Empire."

When, in the following year, the United States learned that Russia was pressing China for a bilateral convention which would have prohibited treaty ports and foreign consuls in Manchuria and would have excluded all foreigners except Russians from Chinese public service in North China, the United States protested to Russia on April 25, 1903, that such action was contrary to the Open Door policy and injurious to the legitimate interests of the United States in China. The Sino-American Treaty of Commerce, signed October 8, 1903, reaffirmed the concept of the Open Door and was accompanied by the opening of Mukden and Antung in Manchuria to foreign trade, thus thwarting Russian attempts to close it.<sup>6</sup>

The Russo-Japanese War of 1904-1905, which was fought mainly on Chinese soil, afforded the United States an opportunity to restate the basic principles of its China policy. Upon the outbreak of the war, Hay on February 10, 1904, appealed to both belligerents to limit as much as possible their military operations and to respect the neutrality and "administrative entity" of China.<sup>7</sup> Subsequently he circularized the Powers in the interests of the integrity of China and the Open Door in the Orient on January 13, 1905:

"It has come to our knowledge that apprehension exists on the part of some of the powers that in the eventual negotiations for peace between Russia and Japan claim may be made for the concession of Chinese territory to neutral powers. The President would be loathe to share this apprehension, believing that the introduction of extraneous interests would seriously embarrass and postpone the settle-

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<sup>6</sup> See annex 6.

<sup>7</sup> See annex 7.

ment of the issues involved in the present contest in the Far East, thus making more remote the attainment of that peace which is so earnestly to be desired. For its part, the United States has repeatedly made its position well known, and has been gratified at the cordial welcome accorded to its efforts to strengthen and perpetuate the broad policy of maintaining the integrity of China and the 'open door' in the Orient, whereby equality of commercial opportunity and access shall be enjoyed by all nations. Holding these views the United States disclaims any thought of reserved territorial rights or control in the Chinese Empire, and it is deemed fitting to make this purpose frankly known and to remove all apprehension on this score so far as concerns the policy of this nation, which maintains so considerable a share of the Pacific commerce of China and which holds such important possessions in the western Pacific, almost at the gateway of China."<sup>8</sup>

President Theodore Roosevelt offered his good offices to bring about peace negotiations between Russia and Japan. The resultant Treaty of Portsmouth, September 5, 1905, pledged the two signatories to restore Manchuria to China and to observe measures "which apply equally to all nations" in the commerce and industry of Manchuria.

### THE ROOT-TAKAHIRA AGREEMENT, 1908

A few years later, in an exchange of notes between the Secretary of State and the Japanese Ambassador in Washington, Japan subscribed to the twin principles of United States policy toward China. By the Root-Takahira Agreement, November 30, 1908, the United States and Japan mutually agreed (1) to maintain the *status quo* in the Pacific and to respect each other's territorial possessions in that region; (2) to uphold the Open Door in China; and (3) to support by pacific means the "independence and integrity of China."<sup>9</sup>

### THE KNOX "NEUTRALIZATION" PROPOSALS, 1909

In an effort to strengthen the Open Door principle and at the same time to discourage the further penetration of Manchurian trade and commerce by Russia and Japan, the United States suggested in 1909 that the Manchurian railroads be taken out of international politics. President Taft and Secretary of State Knox saw that the territorial integrity and political independence of China in Manchuria were being menaced by the railway concessions granted to Japan and Russia, and were convinced that this was contrary to the spirit and letter of the Open Door. Knox circularized the Powers in November-December 1909 as follows:

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<sup>8</sup> See annex 8.

<sup>9</sup> See annex 9.



"Perhaps the most effective way to preserve the undisturbed enjoyment by China of all political rights in Manchuria and to promote the development of those Provinces under a practical application of the policy of the Open Door and equal commercial opportunity would be to bring the Manchurian highways, the railroads, under an economic, scientific, and impartial administration by some plan vesting in China the ownership of the railroads through funds furnished for that purpose by the interested powers willing to participate."

Knox also proposed that the nationals of the participating Powers should supervise the railroad system during the term of the loan, and that the Governments concerned should enjoy for such period "the usual preferences for their nationals and materials" upon an equitable basis among themselves.<sup>10</sup> Great Britain, Germany, and China indicated a willingness to accede in principle to the Knox proposal, which was almost brutally rebuffed by Russia and Japan. The result of the Knox neutralization scheme was to draw Russia and Japan more closely together in defense of their interests in Manchuria and Inner Mongolia. Although using the language of the Open Door and the territorial integrity of China, they entered into treaty engagements on July 4, 1910, and June 25, 1912, which in effect seemed designed ultimately to close the door to others and to threaten the integrity of China.

### III. WORLD WAR I AND POST-WAR SETTLEMENTS

#### HOSTILITIES IN CHINA

World War I had repercussions in China even prior to the Chinese declaration of war (August 14, 1917) against Germany. At the outbreak of the war China, on August 3, 1914, asked the United States to assist in preventing the spread of hostilities to Chinese soil, where the belligerents had foreign settlements and leased areas. The United States accepted this request and informed the British Government on August 11, 1914, of the American "desire to preserve the *status quo* in China." When Japan entered the war against Germany, Secretary of State Bryan on August 19, 1914, informed the Japanese Government that the United States "notes with satisfaction that Japan, in demanding the surrender by Germany of the entire leased territory of Kiaochow does so with the purpose of restoring that territory to China, and that Japan is seeking no territorial aggrandizement in China." Bryan reminded Japan of its pledge to support "the inde-

<sup>10</sup> See annex 10.



pendence and integrity of China and the principle of equal opportunities for the commerce and industry of all nations in China" as contained in the Root-Takahira Agreement of November 30, 1908.

### THE TWENTY-ONE DEMANDS, 1915

Early in 1915 Japan secretly presented to China the Twenty-One Demands, which, if accepted in full, would have made China a virtual protectorate of Japan. Not only did the Japanese Government demand further economic and political rights in Manchuria, Shantung, and Inner Mongolia, but it also sought exclusive mining and industrial rights in the Yangtze valley and actually demanded supervisory control over Chinese social and political institutions, including not only schools and churches but even the Government itself. When the United States learned of the Demands it took the opportunity to reaffirm its traditional policy toward China. In a note of March 13, 1915, to the Japanese Ambassador in Washington Bryan reviewed American policy since the Open Door notes of 1899, called attention to the various international undertakings concerning China, and argued that Japan's Demands were inconsistent with its past pronouncements regarding the sovereignty of China. The Secretary stated that the United States relied upon the "repeated assurances" of Japan in regard to "the independence, integrity and commerce of China" and on Japan's taking "no steps" which would be "contrary to the spirit of those assurances." The Secretary pointed out that the activity of Americans in China "has never been political, but on the contrary has been primarily commercial with no afterthought as to their effect upon the governmental policy of China." Bryan also stated:

"While on principle and under the treaties of 1844, 1858, 1868 and 1903 with China the United States has grounds upon which to base objections to the Japanese 'demands' relative to Shantung, South Manchuria, and East Mongolia, nevertheless the United States frankly recognizes that territorial contiguity creates special relations between Japan and these districts."

The Secretary asserted, however, that the United States "could not regard with indifference the assumption of political, military or economic domination over China by a foreign Power", and expressed the hope that Japan would find it consonant with its interests "to refrain from pressing upon China an acceptance of proposals which would, if accepted, exclude Americans from equal participation in the economic and industrial development of China and would limit the political independence of that country." The Secretary concluded his

note with the statement that the policy of the United States "is directed to the maintenance of the independence, integrity and commercial freedom of China and the preservation of legitimate American rights and interests in that Republic."<sup>11</sup>

Despite these expressed American views and Chinese resistance, Japan persisted and forced China, under the pressure of an ultimatum, to agree to revised Demands which represented a retreat from the extreme position taken when the original Demands were put forth. Thereupon Bryan notified both Tokyo and Peking in identic notes on May 11, 1915, that the United States "cannot recognize any agreement or undertaking which has been entered into or which may be entered into between the Governments of Japan and China, impairing the treaty rights of the United States and its citizens in China, the political or territorial integrity of the Republic of China, or the international policy relative to China commonly known as the Open Door policy".<sup>12</sup>

#### THE LANSING-ISHII AGREEMENT, NOVEMBER 2, 1917

As a result of its entrance into World War I, the United States found itself associated with Japan. Once more the two Powers sought to record a joint policy toward China, which had declared war against Germany on August 14, 1917, by an exchange of notes between the American Secretary of State and the Japanese Special Ambassador. By the Lansing-Ishii Agreement of November 2, 1917, the United States and Japan reaffirmed their respect for the principles of the Open Door and the independence and territorial integrity of China. The Agreement read in part:

"The Governments of the United States and Japan recognize that territorial propinquity creates special relations between countries, and consequently the Government of the United States recognizes that Japan has special interests in China, particularly in the part to which her possessions are contiguous.

"The territorial sovereignty of China, nevertheless, remains unimpaired, and the Government of the United States has every confidence in the repeated assurances of the Imperial Japanese Government that while geographical position gives Japan such special interests they have no desire to discriminate against the trade of other nations or to disregard the commercial rights heretofore granted by China in treaties with other powers."<sup>13</sup>

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<sup>11</sup> See annex 11.

<sup>12</sup> See annex 12.

<sup>13</sup> See annex 13.



By a secret protocol, withheld from the published exchange of notes, but which the United States considered an inseparable part of the Agreement, the two Powers agreed that they would "not take advantage of the present conditions to seek special rights or privileges in China which would abridge the rights of the subjects or citizens of other friendly states." The Lansing-Ishii Agreement was formally annulled by an exchange of notes, dated April 14, 1923, following the coming into force of the Nine-Power Treaty.

## SETTLEMENT OF THE SHANTUNG QUESTION

At the Washington Conference of 1921-1922 the United States, in concert with the United Kingdom, exercised its good offices in bringing about a settlement of the Shantung controversy between China and Japan. Early in World War I Japan seized the German leased territory of Kiaochow Bay and subsequently extended its control over the entire Shantung peninsula. Japan promised ultimately to restore Shantung Province to the sovereignty of China. During the war, however, Japan managed, through various treaties, to obtain recognition of its dominant position in Shantung by China and the Allies. At the Paris Peace Conference in 1919 China demanded the return of the German leasehold and German economic privileges in the province. Japan, on the other hand, insisted upon a treaty clause which would recognize Japanese succession to all German rights and privileges, including the railway, in Shantung. The American Delegation at Paris supported China, protested against the transfer, and offered an alternative plan to cede the former German holdings to the Allied and Associated Powers, which were to make the proper disposition of them later. President Wilson was not able to hold out against the Japanese demands, and a clause was included in the Treaty of Versailles by which Germany renounced in favor of Japan its rights in Shantung. China thereupon refused to sign the treaty. The controversy was not resolved during the intervening years. At the Washington Conference the Chinese and Japanese delegates met with British and American observers to consider the problem. As a result of these direct negotiations Japan and China signed a treaty on February 4, 1922, which provided for the restoration of Shantung in full sovereignty to China, and for the purchase by China of the Tsingtao-Tsinan Railway with funds obtained from Japanese bankers in the form of a fifteen-year loan secured by a lien on the railroad. The reassertion of Chinese sovereignty over Shantung, achieved with United States assistance, was a considerable victory for China, although the terms of the Japanese railway loan did not greatly disturb Japan's economic supremacy in that province.



**THE NINE-POWER TREATY, FEBRUARY 6, 1922**

After the close of World War I the United States succeeded in having the twin principles of its policy toward China written into a treaty. The Powers participating in the Washington Conference signed the Nine-Power Treaty on February 6, 1922. The signatories, other than China, agreed to respect the sovereignty, the independence, and the territorial and administrative integrity of China, and to uphold the principle of the Open Door. The Powers, other than China, also agreed "to refrain from taking advantage of conditions in China in order to seek special rights or privileges which would abridge the rights of subjects or citizens of friendly states, and from countenancing action inimical to the security of such states."<sup>14</sup>

Mention should be made of the related naval arrangements concluded at the Washington Conference. The Five-Power Naval Treaty, signed on February 5, 1922, provided for the reduction and limitation of naval forces, including those of the United States in the Pacific which, together with the provision for the non-fortification of United States possessions in the Far East, gave evidence that the policy and purpose of the United States in the Far East was only defensive.

By the Nine-Power Treaty traditional American policy was given a broad, nine-power base. This treaty provided a sort of charter governing the relations between China and the Powers for almost two decades. The treaty was one of the principal points at issue with Japan after the seizure of Manchuria in 1931-1933, and was the subject of the Brussels Conference called in 1937 pursuant to a League of Nations resolution after the outbreak of the undeclared war between Japan and China. The Brussels Conference, supported by the United States, adopted a resolution on November 24, 1937, which, after reviewing Far Eastern developments since the Washington Conference, reaffirmed the principles of the Nine-Power Treaty "as being among the basic principles which are essential to world peace and orderly progressive development of national and international life." The Brussels Conference recommended suspension of hostilities between Japan and China and expressed the hope, which was not realized, that the conference might be reconvened at a later date.

**IV. NON-INTERFERENCE IN CHINESE INTERNAL AFFAIRS—THE WASHINGTON CONFERENCE AND AFTER**

The Nine-Power Treaty of February 6, 1922, also contained a provision by which the signatory Powers, other than China, agreed "to

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<sup>14</sup> See annex 14.

provide the fullest and most unembarrassed opportunity to China to develop and maintain for herself an effective and stable government". This was in accordance with the long-held view of the United States that China should be given time to progress along the road of national development. The United States sympathized with the efforts of Chinese people to achieve those political institutions which would best meet their needs in the modern world and had followed a policy of strict neutrality on internal Chinese developments. When the Manchu dynasty had been challenged by the Republican revolution in October 1911, the United States had maintained its neutrality in the incipient civil war and had helped neither the recognized government at Peking nor the Republican revolutionists in the Yangtze Valley. Following the abdication of the Manchus, the Chinese Republic was established on February 12, 1912. *De jure* recognition by the United States of the Republican Government followed on May 2, 1913.

#### STATEMENT BY SECRETARY KELLOGG, JANUARY 27, 1927

Subsequently in the 1920's when the Chinese Nationalists, under the leadership of the Kuomintang, were driving northward through the Yangtze Valley in an effort to unite all China, Secretary of State Frank B. Kellogg restated American sympathy with Chinese nationalism and the American policy of non-interference in the internal affairs of China. The statement by the Secretary of State, made public on January 27, 1927, said in part:

"The United States has always desired the unity, the independence and prosperity of the Chinese nation. It has desired that tariff control and extraterritoriality provided by our treaties with China should as early as possible be released. . . .

"The Government of the United States has watched with sympathetic interest the nationalistic awakening of China and welcomes every advance made by the Chinese people toward reorganizing their system of Government.

"During the difficult years since the establishment of the new regime in 1912, the Government of the United States has endeavored in every way to maintain an attitude of the most careful and strict neutrality as among the several factions that have disputed with one another for control in China. . . . This Government wishes to deal with China in a most liberal spirit. It holds no concessions in China and has never manifested any imperialistic attitude toward that country. It desires, however, that its citizens be given equal opportunity with the citizens of the other Powers to reside in China and to pursue their legitimate



occupations without special privileges, monopolies or spheres of special interest or influence.”<sup>15</sup>

Following the Nanking “incident” of March 24, 1927, when foreigners were subjected to indignities at the hands of Chinese Nationalist forces and were rescued by Western gunboats, the United States strove to settle the matter in such a way as to compensate the Powers for the injuries resulting from the civil strife, but without punitive measures against the Chinese nation. Chinese xenophobia had previous manifestations, the Boxer Rebellion in 1900 being the best-known example. Sporadic outbreaks of anti-foreignism occurred in various parts of China during the Chinese Nationalist movement of the 1920's. Despite these manifestations of Chinese xenophobia the United States dealt sympathetically with the new regime, made its peace with the new central government, and ultimately extended recognition to it.

#### RECOGNITION OF THE NATIONAL GOVERNMENT, 1928

After China had achieved a degree of unity under the Kuomintang leadership of General Chiang Kai-shek, the United States recognized the National Government of the Republic of China on July 25, 1928, by concluding with that Government a treaty restoring tariff autonomy to China—the first nation to do so.<sup>16</sup> In connection with the negotiation of this treaty Mr. Kellogg stated:

“The good will of the United States toward China is proverbial and the American Government and people welcome every advance made by the Chinese in the direction of unity, peace and progress. We do not believe in interference in their internal affairs. We ask of them only that which we look for from every nation with which we maintain friendly intercourse, specifically, proper and adequate protection of American citizens, their property and their lawful rights, and, in general, treatment in no way discriminatory as compared with the treatment accorded to the interests or nationals of any other country.”

### V. THE SINO-SOVIET DISPUTE IN 1929

As the tide of Chinese nationalism swept northward in 1928 and 1929 it came into conflict with the rights and privileges of the Soviet Union in Manchuria. In mid-1929 a dispute developed between China and the Soviet Union over the Chinese Eastern Railway in Manchuria. The United States immediately took the lead in attempting to achieve

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<sup>15</sup> See annex 15.

<sup>16</sup> See annex 16.



a peaceful solution. The efforts of Secretary of State Stimson failed to arrest intermittent armed clashes along the Manchurian border. In mid-November Russian troops invaded Manchuria in force.

Eventually, following direct negotiations, the U.S.S.R. and China on December 22, 1929, signed a Protocol under which the controversy was settled on the basis of restoring the *status quo ante*, and the Soviet Union retained the special privileges in the Chinese Eastern Railway zone originally acquired by the Czarist Government in the 1890's but subsequently redefined in the Sino-Soviet Treaties of 1924.

## VI. JAPANESE EXPANSION INTO CHINA FROM 1931

### THE NON-RECOGNITION DOCTRINE OF SECRETARY STIMSON

When Japan embarked upon a policy of forcible expansion in Manchuria in September 1931, the United States in cooperation with the League of Nations, of which it was not a member, sought a peaceful solution of the controversy.

As it became evident that Japan was determined to persist in its course of conquest, Mr. Stimson addressed notes to both Japan and China on January 7, 1932, in which he announced the policy of non-recognition of territorial changes brought about by force. In identic notes the Secretary informed the two Powers that the United States "cannot admit the legality of any situation *de facto* nor does it intend to recognize any treaty or agreement entered into between those Governments, or agents thereof, which may impair the treaty rights of the United States or its citizens in China, including those which relate to the sovereignty, the independence, or the territorial and administrative integrity of the Republic of China, or to the international policy relative to China, commonly known as the open door policy; and that it does not intend to recognize any situation, treaty or agreement which may be brought about by means contrary to the covenants and obligations of the Pact of Paris of August 27, 1928, to which Treaty both China and Japan, as well as the United States, are parties."<sup>17</sup>

After hostilities had been extended to Shanghai and Manchurian independence had been proclaimed, Mr. Stimson sought world-wide support for this position in a letter to Senator Borah, Chairman of the Senate Committee on Foreign Relations, dated February 23, 1932, which was made public the next day. At the same time the Secretary reaffirmed the policy of his predecessor as regards American sympathy

<sup>17</sup> See annex 17.

with Chinese nationalism and non-interference in Chinese internal affairs. After tracing the development of traditional United States policy toward China since the turn of the century, Mr. Stimson commented on the principles underlying the Nine-Power Treaty as follows:

"This Treaty thus represents a carefully developed and matured international policy intended, on the one hand, to assure to all of the contracting parties their rights and interests in and with regard to China, and on the other hand, to assure to the people of China the fullest opportunity to develop without molestation their sovereignty and independence according to the modern and enlightened standards believed to maintain among the peoples of this earth. At the time this Treaty was signed, it was known that China was engaged in an attempt to develop the free institutions of a self-governing republic after her recent revolution from an autocratic form of government; that she would require many years of both economic and political effort to that end; and that her progress would necessarily be slow. The Treaty was thus a covenant of self-denial among the signatory powers in deliberate renunciation of any policy of aggression which might tend to interfere with that development. It was believed—and the whole history of the development of the 'Open Door' policy reveals that faith—that only by such a process, under the protection of such an agreement, could the fullest interests not only of China but of all nations which have intercourse with her best be served."

In stressing the obligations assumed by the signatories of the Nine-Power Treaty, Mr. Stimson pointed out that it was but one of several "interrelated and interdependent" treaties negotiated at the Washington Conference. He stated that the "willingness of the American Government to surrender its then commanding lead in battleship construction and to leave its positions at Guam and in the Philippines without further fortifications, was predicated upon, among other things, the self-denying covenants contained in the Nine-Power Treaty which assured the nations of the world not only of equal opportunity for their Eastern trade but also against the military aggrandizement of any other power at the expense of China." Calling attention to the enlightened principles embodied in the Kellogg-Briand Pact and the Nine-Power Treaty, Secretary Stimson continued: "We believe that this situation would have been avoided had these covenants been faithfully observed, and no evidence has come to us to indicate that a due compliance with them would have interfered with the adequate protection of the legitimate rights in China of the signatories of those treaties and their nationals." He suggested that



the rest of the world join the United States in applying the non-recognition principle to "any situation, treaty or agreement entered into" by Japan and China "in violation of the covenants of these treaties, which affect the rights of our Government or its citizens in China." If other Governments were to do so "a caveat will be placed upon such action which, we believe, will effectively bar the legality hereafter of any title or right sought to be obtained by pressure or treaty violation."

The Secretary concluded his letter with the statement:

"In the past our Government, as one of the leading powers on the Pacific Ocean, has rested its policy upon an abiding faith in the future of the people of China and upon the ultimate success in dealing with them of the principles of fair play, patience, and mutual goodwill. We appreciate the immensity of the task which lies before her statesmen in the development of her country and its government. The delays in her progress, the instability of her attempts to secure a responsible government, were foreseen by Messrs. Hay and Hughes and their contemporaries and were the very obstacles which the policy of the Open Door was designed to meet. We concur with those statesmen, representing all the nations, in the Washington Conference who decided that China was entitled to the time necessary to accomplish her development. We are prepared to make that our policy for the future."<sup>18</sup>

The non-recognition principle enunciated by Secretary Stimson, which was also accepted by the League of Nations, remained the basis of United States policy and was reaffirmed on numerous occasions during the years between the time of its enunciation and American involvement in World War II following the Japanese attack on Pearl Harbor.

## DEFENSE OF AMERICAN TREATY RIGHTS IN CHINA

The United States continued in the following years to assert its treaty rights in China in the face of the extension of Japanese activities. When a Japanese Foreign Office spokesman (Mr. Eiji Amau) issued a statement on April 17, 1934, proclaiming (1) Japanese "special responsibilities in East Asia" and (2) Japanese political guardianship of China, and warning the Powers against financial, political, or commercial undertakings prejudicial to Japanese interests in China, the United States quickly replied. In a carefully worded note delivered in Tokyo on April 29, 1934, the United States reaffirmed its treaty

<sup>18</sup> See annex 18.



rights. Secretary Hull restated American policy toward China as follows:

"The relations of the United States with China are governed, as are our relations with Japan and our relations with other countries, by the generally accepted principles of international law and the provisions of treaties to which the United States is a party. In international law, in simple justice, and by virtue of treaties, the United States has with regard to China certain rights and certain obligations. In addition, it is associated with China or with Japan or with both, together with certain other countries, in multilateral treaties relating to rights and obligations in the Far East, and in one great multilateral treaty to which practically all the countries of the world are parties.

"Entered into by agreement, for the purpose of regulating relations between and among nations, treaties can lawfully be modified or be terminated—but only by processes prescribed or recognized or agreed upon by the parties to them.

"In the international associations and relationships of the United States, the American Government seeks to be duly considerate of the rights, the obligations and the legitimate interests of other countries, and it expects on the part of other governments due consideration of the rights, the obligations and the legitimate interests of the United States.

"In the opinion of the American people and the American Government, no nation can, without the assent of the other nations concerned, rightfully endeavour to make conclusive its will in situations where there are involved the rights, the obligations and the legitimate interests of other sovereign states."

During this time the puppet regime in Manchuria planned to establish an official monopoly, the Manchurian Petroleum Company, for the distribution of oil products in Manchuria. The United States protested to Tokyo on July 7, 1934, and asked the Japanese Government to "use its influence to discourage the adoption by the Manchurian authorities of measures which tend to violate the principle of the Open Door and the provisions of various treaties which the authorities in Manchuria have agreed to respect." A number of notes on the subject were exchanged in the following months in which the Japanese Government refused to accept responsibility for the actions of the Manchurian officials, while the United States continued to maintain the principle of the Open Door. Finally, the United States summarized its position in this controversy in a note to the Japanese Government, dated April 15, 1935, as follows:

"The American Government greatly regrets that the Japanese Government has not seen its way clear to use the influence which it possesses through its close and peculiar relations with the present regime in Manchuria to uphold in practice the principle of the Open Door and the fulfillment of the treaty obligations which both the Japanese Government and the authorities in Manchuria have on numerous occasions declared that they would maintain.

". . . the American Government is constrained to express its considered view that upon the Japanese Government must rest the ultimate responsibility for injury to American interests resulting from the creation and operation of the petroleum monopoly in Manchuria."

#### STATEMENT BY SECRETARY HULL, DECEMBER 5, 1935

Japan persisted in penetrating deeper into China. The attempt by Japan, late in 1935, to convert the five northern provinces of Hopei, Chahar, Suiyuan, Shansi, and Shantung into an autonomous area caused no change in the American attitude. In a statement to the press on December 5, 1935, Mr. Hull reiterated the position of the United States:

"Unusual developments in any part of China are rightfully and necessarily of concern not alone to the Government and people of China but to all of the many powers which have interests in China. For, in relations with China and in China, the treaty rights and the treaty obligations of the 'treaty powers' are in general identical. The United States is one of those powers.

"In the area under reference the interests of the United States are similar to those of other powers. In that area there are located, and our rights and obligations appertain to, a considerable number of American nationals, some American property, and substantial American commercial and cultural activities. The American Government is therefore closely observing what is happening there.

"Political disturbances and pressures give rise to uncertainty and misgiving and tend to produce economic and social dislocations. They make difficult the enjoyment of treaty rights and the fulfillment of treaty obligations.

"The views of the American Government with regard to such matters not alone in relation to China but in relation to the whole world are well known. As I have stated on many occasions, it seems to this Government most important in this period of world-wide political unrest and economic instability that governments and peoples keep faith in principles and pledges. In international relations there must be agreements and respect for agreements in order that there



may be the confidence and stability and sense of security which are essential to orderly life and progress. This country has abiding faith in the fundamental principles of its traditional policy. This Government adheres to the provisions of the treaties to which it is a party and continues to bespeak respect by all nations for the provisions of treaties solemnly entered into for the purpose of facilitating and regulating, to reciprocal and common advantage, the contacts between and among the countries signatory.”<sup>19</sup>

## VII. THE JAPANESE UNDECLARED WAR OF 1937

At the start of the undeclared war of Japan in China, following a clash between Japanese and Chinese troops on July 7, 1937, at the Marco Polo Bridge outside Peiping, Mr. Hull urged a policy of self-restraint upon the Japanese Government. On July 16, 1937, the Secretary issued a statement on fundamental principles of international policy containing the precepts advocated by the United States in international relations which were applicable to the Sino-Japanese controversy. The statement by Mr. Hull enumerated such principles as maintenance of peace; abstinence from the use of force in relations between states; abstinence from interference in the internal affairs of other nations; adjustment of problems in international relations by processes of peaceful negotiation and agreement; faithful observance of international agreements; modification of provisions of treaties by orderly processes carried out in a spirit of mutual helpfulness and accommodation; respect by all nations for the rights of others and performance by all nations of established obligations; promotion of economic security and stability throughout the world; and effective equality of commercial opportunity and application of the principle of equality of treatment. These principles were reaffirmed in a later statement issued by the Department of State on August 23, 1937, in which it was made clear that the United States regarded these principles as being applicable to the Pacific area.

During the interval between the first and second statements mentioned above, the United States sought ways and means of bringing about an amicable settlement between China and Japan. Besides urging both disputants to seek a peaceful solution the United States on August 10, 1937, informally offered its good offices to Japan in an effort to settle the controversy. This offer contemplated providing neutral ground where Japanese and Chinese representatives might meet to negotiate, and giving assistance in adjusting the difficulties

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<sup>19</sup> See annex 19.



which might develop during the negotiations. As Japan did not respond to the offer, the United States Government felt that no useful purpose would be served in making a similar approach to the Chinese Government.

### **THE "QUARANTINE" SPEECH OF PRESIDENT ROOSEVELT OCTOBER 5, 1937**

As Japanese military operations in China increased in intensity it became evident that Japan was bent upon solving the controversy by force. In an address delivered at Chicago on October 5, 1937, President Roosevelt, without mentioning any Power by name, condemned the Japanese resort to undeclared war against China. The President cited the spreading "epidemic of world lawlessness" and drew the parallel that in case of an epidemic of physical disease the community joins in a "quarantine" of the patients in order to protect the health of the community against the spread of the disease. The President stated that war was a "contagion whether it be declared or undeclared", and that it "can engulf states and peoples remote from the original scene of hostilities." The following day the Department of State underscored American sympathy with China by issuing a statement which said in part:

"In the light of the unfolding developments in the Far East, the Government of the United States has been forced to the conclusion that the action of Japan in China is inconsistent with the principles which should govern the relationships between nations and is contrary to the provisions of the Nine-Power Treaty of February 6, 1922, regarding principles and policies to be followed in matters concerning China, and to those of the Kellogg-Briand Pact of August 27, 1928."<sup>20</sup>

### **DEFENSE OF THE PRINCIPLE OF THE OPEN DOOR**

During the undeclared war the United States on numerous occasions protested against the violation of its treaty rights in China by Japan. The United States included within the term "treaty rights" protection of American missionaries and their property, as well as protection of Americans engaged in commercial activity. In the course of their campaigns, Japan's military forces frequently violated American missionary property either by outright seizure for occupation purposes or by bombing and shelling of the property. It appeared that Japanese violation of American missionary property was part of a deliberate attempt to eradicate American cultural influence in China, inasmuch as

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<sup>20</sup> See annex 20.

American missionaries, through their religious, educational, and medical work, had played a very large part in spreading Western concepts of thought ever since the opening of China to intercourse with the West, and in developing a close cultural tie between the United States and China. Although the mission stations, frequently located in the interior, were for the most part conspicuously marked with the American flag, the Japanese usually disregarded such marking. The United States protested these violations of American property in China, but received as little satisfaction from the Japanese Government on this aspect as it had in answer to its protests on violations of commercial interests.

In a note to Japan, dated October 6, 1938, the United States called attention to the "categorical assurances" given by the Japanese Government that the Open Door would be maintained in China. The note reviewed numerous instances in which actions by Japanese agencies in China had contravened these assurances and interfered with American treaty rights in China. The note closed with a request that Japan implement its "assurances already given with regard to the maintenance of the Open Door and to non-interference with American rights" by taking the following effective measures:

"1. The discontinuance of discriminatory exchange control and of other measures imposed in areas in China under Japanese control which operate either directly or indirectly to discriminate against American trade and enterprise;

"2. The discontinuance of any monopoly or of any preference which would deprive American nationals of the right of undertaking any legitimate trade or industry in China or of any arrangement which might purport to establish in favor of Japanese interests any general superiority of rights with regard to commercial or economic development in any region of China; and

"3. The discontinuance of interference by Japanese authorities in China with American property and other rights including such forms of interference as censorship of American mail and telegrams and restrictions upon residence and travel by Americans and upon American trade and shipping." <sup>21</sup>

In its reply of November 18, 1938, Japan denied the American contention that Japanese actions in China violated American treaty rights or discriminated against American interests in China. The note from the Japanese Foreign Minister to the American Ambassador in Japan indicated that Japan did not interpret the principle of the Open Door

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<sup>21</sup> See annex 21.



in the same way as did the United States. The reply of the Japanese Foreign Minister of November 18, 1938, concluded as follows:

"At present Japan, devoting its entire energy to the establishment of a new order based on genuine international justice throughout East Asia, is making rapid strides toward the attainment of this objective. The successful accomplishment of this purpose is not only indispensable to the existence of Japan, but also constitutes the very foundation of the enduring peace and stability of East Asia.

"It is the firm conviction of the Japanese Government that now, at a time of the continuing development of new conditions in East Asia, an attempt to apply to present and future conditions without any changes concepts and principles which were applicable to conditions prevailing before the present incident does not in any way contribute to the solution of immediate issues and further does not in the least promote the firm establishment of enduring peace in East Asia.

"The Imperial Government, however, does not have any intention of objecting to the participation in the great work of the reconstruction of East Asia by your Excellency's country or by other Powers, in all fields of trade and industry, when such participation is undertaken with an understanding of the purport of the above stated remarks; and further, I believe that the regimes now being formed in China are also prepared to welcome such participation."<sup>22</sup>

The American note of December 30, 1938, delivered by the Ambassador in Tokyo to the Japanese Foreign Minister, challenged Japan's interpretation of the Open Door principle and reaffirmed the views contained in the previous communication of October 6, 1938. The United States again called upon Japan to observe its treaty obligations. The United States denied that its treaty rights in China could be abrogated by the unilateral action of Japan, and stressed the fact that it was always ready and willing to discuss treaty revision by orderly processes of negotiation and agreement among the parties thereto. The note of December 30, 1938, stated:

"The admonition that enjoyment by the nationals of the United States of non-discriminatory treatment in China—a general and well established right—is henceforth to be contingent upon an admission by the Government of the United States of the validity of the conception of Japanese authorities of a 'new situation' and a 'new order' in East Asia, is, in the opinion of this Government, highly paradoxical. . . .

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<sup>22</sup> See annex 22.



"Whatever may be the changes which have taken place in the situation in the Far East and whatever may be the situation now, these matters are of no less interest and concern to the American Government than have been the situations which have prevailed there in the past, and such changes as may henceforth take place there, changes which may enter into the producing of a 'new situation' and a 'new order', are and will be of like concern to this Government. This Government is well aware that the situation has changed. This Government is also well aware that many of the changes have been brought about by the action of Japan. This Government does not admit, however, that there is need or warrant for any one Power to take upon itself to prescribe what shall be the terms and conditions of a 'new order' in areas not under its sovereignty and to constitute itself the repository of authority and the agent of destiny in regard thereto. . . .

"The United States has in its international relations rights and obligations which derive from international law and rights and obligations which rest upon treaty provisions. Of those which rest on treaty provisions, its rights and obligations in and with regard to China rest in part upon provisions in treaties between the United States and China and in part on provisions in treaties between the United States and several other powers including both China and Japan. These treaties were concluded in good faith for the purpose of safeguarding and promoting the interests not of one only but of all of their signatories. The people and the Government of the United States cannot assent to the abrogation of any of this country's rights or obligations by the arbitrary action of agents or authorities of any other country.

"The Government of the United States has, however, always been prepared and is now prepared to give due and ample consideration to any proposals based on justice and reason which envisage the resolving of problems in a manner duly considerate of the rights and obligations of all parties directly concerned by processes of free negotiation and new commitment by and among all of the parties so concerned. There has been and there continues to be opportunity for the Japanese Government to put forward such proposals. This Government has been and it continues to be willing to discuss such proposals, if and when put forward, with representatives of the other powers, including Japan and China, whose rights and interests are involved, at whatever time and in whatever place may be commonly agreed upon.

"Meanwhile, this Government reserves all rights of the United States as they exist and does not give assent to any impairment of any of those rights."<sup>23</sup>

This and subsequent protests regarding violation of American treaty rights in China were equally unproductive of positive results.

From the beginning of Japan's undeclared war the sympathies of the American people were with China. Despite this fact, and despite Japanese violations of American treaty rights in China, the United States continued to sell war supplies to Japan for about two and a half years after the commencement of Sino-Japanese hostilities in accordance with the traditional theory of freedom of trade, and the then existing concepts of neutrality and freedom of the seas. Furthermore, during these years the United States tried to steer a course which would not involve it in hostilities in the Far East.

#### DEFENSE OF CHINESE INTEGRITY

United States interest in the maintenance of Chinese administrative integrity under existing arrangements continued unabated throughout the undeclared war. Beginning in the fall of 1937, the United States repeatedly made representations to Japan regarding the failure of the latter to maintain the integrity of the Chinese Maritime Customs Administration<sup>24</sup> and the Chinese Salt Administration, the revenues from both of which had been pledged to service foreign loans, including American loans. The representations did not deter Japan from its course, which included setting up various "autonomous" regimes in those parts of China occupied by the Japanese Army.

Late in 1939 the United States learned that Japan was considering setting up a Chinese central regime at Nanking under Wang Ching-wei. The United States took the position that such a regime would be a purely artificial creation, lacking any broad Chinese popular support; that it would be designed primarily to serve the special purposes of Japan; and that it would result in depriving the people and the Government of the United States, as well as those of other third countries, of long established rights of equal opportunity and fair treatment in China which were legally theirs. When the new regime was set up in March 1940 the United States announced that it would continue to recognize the National Government of the Republic of China whose capital was then at Chungking. In a forceful

<sup>23</sup> See annex 23.

<sup>24</sup> The United States in 1928 had been the first country to restore tariff autonomy to China.



public statement on March 30, 1940, Mr. Hull denounced the use of force in setting up the new Chinese regime under Japanese auspices as follows:

"In the light of what has happened in various parts of China since 1931, the setting up of a new regime at Nanking has the appearance of a further step in a program of one country by armed force to impose its will upon a neighboring country and to block off a large area of the world from normal political and economic relationships with the rest of the world. The developments there appear to be following the pattern of other regimes and systems which have been set up in China under the aegis of an outside power and which in their functioning especially favor the interests of that outside power and deny to nationals of the United States and other third countries enjoyment of long-established rights of equal and fair treatment which are legally and justly theirs.

"The Government of the United States has noted statements of high officials of that outside power that their country intends to respect the political independence and the freedom of the other country and that with the development of affairs in East Asia this intention will be demonstrated. To this Government the circumstances, both military and diplomatic, which have attended the setting up of the new regime at Nanking do not seem consistent with such an intention.

"The attitude of the United States toward use of armed force as an instrument of national policy is well known. Its attitude and position with regard to various aspects of the situation in the Far East have been made clear on numerous occasions. That attitude and position remain unchanged.

"This Government again makes full reservation of this country's rights under international law and existing treaties and agreements." <sup>25</sup>

#### UNITED STATES SUPPORT OF CHINESE RESISTANCE

By way of moral and material support to China in its resistance to Japan's undeclared war, the United States gave notice to Japan on July 26, 1939, of its desire to terminate the Treaty of Commerce and Navigation between the United States and Japan signed on February 21, 1911. As a result of this action, after January 26, 1940, the United States was in a position to resort to successive economic measures against Japan. After the termination of the commercial treaty the United States increasingly restricted the shipment of oil, scrap iron, machinery, machine tools, and other war matériel to Japan. (A moral embargo on the shipment of aircraft, aircraft parts and ac-

<sup>25</sup> See annex 24.



cessories, and aerial bombs to Japan had been in effect since mid-1938.) On July 26, 1941, President Roosevelt issued an Executive Order freezing Japanese assets in the United States, thereby virtually cutting off all trade with Japan.

The United States also supported China with positive measures in its resistance against Japanese conquest. American aviators on active duty were permitted to enter the Reserves and to join the Chinese armed forces, a military mission was sent to China, and China was declared eligible for lend-lease assistance on May 6, 1941. In addition, there were various economic measures which are discussed later in this chapter.

### AMERICAN-JAPANESE INFORMAL CONVERSATIONS IN 1941

Beginning in the spring of 1941 the United States and Japan entered into informal, exploratory conversations for a comprehensive and peaceful settlement of the various political and economic problems of the Far East. During these conversations, which lasted until December 7, 1941, an effort was made to draft an agreement containing the principles on which peace could be maintained in the Pacific area. The United States remained firm in its conviction that an agreement should contain the following principles which were to be supported by both Powers:

1. The principle of the inviolability of territorial integrity and sovereignty of each and all nations.
2. The principle of non-interference in the internal affairs of other countries.
3. The principle of equality, including equality of commercial opportunity and treatment.
4. The principle of reliance upon international cooperation and conciliation for the prevention and pacific settlement of controversies and for improvement of international conditions by peaceful methods and processes.<sup>26</sup>

The United States proposed that all Japanese forces in China be withdrawn, and that the National Government of the Republic of China be supported—militarily, politically, and economically—as against any other regime in China. The United States was willing to reestablish normal trade relations with Japan and to improve economic relations between the two countries. Japan, on the other hand, sought to obtain recognition from the United States of Japanese hegemony in the Far East. Among other things, Japan wanted the United States to discontinue furnishing aid to the Nationalist

<sup>26</sup> See annex 25.

regime in Chungking which was resisting Japanese onslaughts. The United States refusal to stop its support of China and the unwillingness of the United States to compromise on the principle of Chinese sovereignty were among the immediate motivations of the Japanese attack upon Pearl Harbor on December 7, 1941. This Japanese aggression abruptly terminated the bilateral informal conversations.

## VIII. WORLD WAR II

Following the attack on Pearl Harbor the United States and China fought side by side against Japan. The United States had already been giving assistance to China, in accordance with the American policy of extending aid to nations resisting aggression, but now that assistance was accelerated and increased in scope. It included lend-lease, and military and financial assistance.

### THE LEND-LEASE PROGRAM, 1941-1943

On March 15, 1941, four days after the passage of the Lend-Lease Act, President Roosevelt made an address in which he said: "China likewise expresses the magnificent will of millions of plain people to resist the dismemberment of their Nation. China, through the Generalissimo, Chiang Kai-shek, asks our help. America has said that China shall have our help." After a lend-lease program to meet the emergency needs of China had been developed following consultations between Chinese and American officials, the President, on May 6, 1941, in accordance with the provisions of the Act, declared the defense of China to be vital to the defense of the United States. A Master Lend-Lease Agreement with China was not signed, however, until June 2, 1942.<sup>27</sup>

Lend-lease aid to China was begun in 1941, and was aimed particularly at improving transport over the Burma Road, the only artery through which goods could flow into unoccupied China. The first lend-lease shipments consisted primarily of trucks, spare parts, motor fuel, and lubricants for use on the Burma Road and material for the development of the highway. At the request of Generalissimo Chiang Kai-shek a mission of American traffic experts was sent to China in June 1941, to survey the Burma Road and make recommendations for increasing traffic over it. On the basis of these recommendations the Chinese Government undertook a number of measures to improve the administration of the road. Additional spare parts and repair equipment were furnished to China under lend-lease, and a number of

<sup>27</sup> See annex 26.



American motor-traffic technicians were recruited in the United States and sent to China at lend-lease expense. The United States also furnished road-building equipment and asphalt under lend-lease to assist China in hard-surfacing the Burma Road. As a result of these efforts and of the arrival of large numbers of American trucks, the tonnage carried over the Burma Road by November 1941, was almost four times greater than it had been during the early months of 1941. The quantity of material carried was increased from 4,000 tons a month at the beginning of 1941 to 15,000 tons in November 1941.

While the capacity of the Burma Road was being expanded, lend-lease was helping in the attempt to open a second route into China. During 1941 lend-lease funds amounting to 15 million dollars were allocated to China for use in constructing a railroad from Burma into China which had been started by the Chinese Government in 1938, and which would have made possible a great increase in the volume of supplies transported to China through the Burmese port of Rangoon. The completion of this project was prevented, however, by successful Japanese military operations in Burma.

The fall of Burma and the seizure of the southern portion of the Burma Road by the Japanese early in 1942 left air transport as the only effective means of getting supplies into China. Great progress was made, particularly during 1943, in the development of an air-transport route into China. In the month of December 1943, for example, twice as much cargo (13,450 short tons) was flown into China as in all 1942 (5,258 short tons). In January 1944, the tonnage of goods flown into China was seven times that of January 1943—14,472 short tons as compared to 1,923 short tons—and the monthly tonnage continued to increase. It should be pointed out, however, that a very large proportion of the supplies flown into China during this period was destined for the United States military forces then operating in China. Some of this traffic was carried by planes operated by the China National Aviation Corporation, part of whose fleet of cargo planes was furnished to China through lend-lease channels. The bulk of the supplies which were flown from India to China was, however, transported by the Tenth United States Air Force between April and December 1942, and subsequently by the United States Air Transport Command, which, beginning in December 1942, operated a ferry service 500 miles long between Assam, India and the Yunnan plateau, over the towering "Hump" of the Himalayas—the most difficult supply operation of the entire war.

At the same time efforts were made under the lend-lease program to develop new land supply routes to China. By the end of 1943 American engineers were constructing the Ledo Road from Assam in



India across upper Burma to China. (This road, renamed the Stilwell Road, was finally opened early in 1945.) India became the great supply base for operations whose objectives were the expulsion of Japan from Burma and the reopening of land transportation through that area for supplies for China. Stockpiles in India of material for China, awaiting shipment as soon as new transportation routes were opened, were steadily growing by the end of 1943.

The total value of lend-lease supplies transferred to China through December 31, 1943, amounted to 201 million dollars, of which 175.6 million dollars represented goods and 25.4 million dollars represented services rendered. In addition, goods valued at 191.7 million dollars were consigned to the American commanding general in the China-Burma-India Theater for transfer to China.<sup>27a</sup>

### MILITARY AID, 1941-1943

The United States began to give military aid to China even before the United States became a belligerent in World War II. The lend-lease supplies that were provided China between the time of the cutting of the Burma Road and the end of 1943 had the effect of greatly increasing this form of assistance. Early in 1941 the United States and China developed a project under lend-lease for equipping and training large numbers of Chinese forces. The United States Government subsequently organized a military mission composed of specialists in all phases of modern warfare to advise Chinese authorities on the use of the materials provided in connection with this project. This mission, which arrived in China in November 1941, was supported by lend-lease funds.

Unfortunately, little of the equipment intended for China's ground forces under this program ever reached its intended destination. The United States was more successful, however, in furnishing China with assistance in the air. Early in 1941 this Government approved a plan which permitted American fighter planes piloted by volunteer American airmen and serviced by American ground crews to fight against Japan in the service of China. The American Volunteer Group (the "Flying Tigers"), under the command of Major General Claire L. Chennault, was formally constituted as a unit of China's armed forces by an order issued by Generalissimo Chiang Kai-shek on August 1, 1941. During the time that it was in existence the American Volunteer Group provided an effective air defense for southwest China and rendered invaluable assistance to hard-pressed Chinese and other forces in Burma. The American Volunteer Group

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<sup>27a</sup> For further information concerning lend-lease and the Lend-Lease Pipeline Agreements, see chapters V and VII.

was disbanded in July 1942, when its personnel was incorporated into the United States Tenth Air Force, which had been organized in the China-Burma-India Theater early in 1942. In recognition of its increasingly important role the United States air unit in China was formally activated as the Fourteenth United States Air Force on March 10, 1943. This force kept control of the air over unoccupied China, engaged in expanding operations against the Japanese, and ably performed the vital mission of protecting the terminal bases of the air transport route into China. The activities of this force helped to maintain China's military position and morale throughout the war.

In addition to furnishing China with fighter planes and pilots, the United States took steps to put into effect a program for building a strong and well-equipped Chinese Air Force. In May 1941 an American Air Mission headed by General Clagett was sent to China to survey the situation. Among other things, the report of the Air Mission recommended that a program to train Chinese pilots and mechanics be developed, inasmuch as China did not have enough men trained to fly or maintain the planes that were needed to defend China from Japanese air attacks.

Because of the difficulties that would be encountered in trying to establish aviation training centers in China, a program was developed, using lend-lease funds, to implement this recommendation by training Chinese flyers in the United States. In October 1941 the first group of fifty students arrived in the United States to take the standard United States Air Force training course for pilots at Thunderbird Field in Arizona. Other groups of Chinese pilots came to the United States for training during the war. The United States Army also trained Chinese aviation personnel in India.

The program for training Chinese aviation personnel had an important bearing on operations against Japan. In November 1943 the formation of a Chinese-American Composite Wing of the Chinese Air Force was announced. This wing, composed of Chinese and American airmen and ground units and equipped with fighter and bombing planes, formed the nucleus for a strong Chinese Air Force, and as the Chinese personnel gained experience the American personnel was gradually withdrawn.

Soon after its entry into the war, the United States, at the formal request of the Chinese Government, sent Lieutenant General Joseph W. Stilwell to China.<sup>27b</sup> In addition to being Commanding General of United States Forces in the China-Burma-India Theater, and of

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<sup>27b</sup> For the Stimson-Soong exchange of letters with respect to General Stilwell's assignment, see annex 27 (a) and (b).



such Chinese troops as Generalissimo Chiang Kai-shek might assign to him, General Stilwell was also to be Chief of Staff of the Generalissimo's proposed Joint Staff—an Allied staff made up of officers representing the United States, the United Kingdom, China, and the Netherlands. Although no Allied personnel were ever assigned to this Joint Staff because of the later change of attitude of the Chinese Government, nonetheless General Stilwell drew his formal authority in the Chinese military hierarchy from his continuing position as its Chief. General Stilwell thus served concurrently with General Ho Ying-chin, who was Chief of Staff of the Chinese Army, as one of two Chiefs of Staff to the Generalissimo. Under General Stilwell an extensive program for equipping and training Chinese ground forces was undertaken in India, and attempts were made to overcome the reluctance of the Chinese Government to cooperate in such a program in China.

At these training centers in India large numbers of Chinese ground forces were equipped, through lend-lease, with the latest types of American weapons. Some of the personnel thus trained by American Army officers demonstrated their combat efficiency in operations in northern Burma beginning in 1943. This program provided not only complete tactical units but also cadres for the training of Chinese divisions beyond the mountains in China proper.

Beginning in April 1943, United States Army officers, each of whom was a specialist in some phase of modern warfare, also operated training centers for Chinese officers in China. A field-artillery center, for example, graduated more than 5,000 officers and an infantry center, more than 3,000 officers by the end of the year. American officers also went into the field with units of the Chinese Army to serve as instructors, advisers, and observers; and American ordnance officers, with the assistance of Chinese mechanics, engaged in the work of restoring worn Chinese equipment. Mention should also be made of the American field-hospital units which were sent to China and to northern Burma to aid the Chinese forces, and of United States Army engineers and other specialists sent to China to help improve communications and air-base facilities. The United States Army also cooperated with Chinese forces in the protection of the advancing Stilwell Road against Japanese attacks.

United States military assistance up to the end of 1943 made possible much more effective United States-Chinese combined operations, ground and air, on the Asian continent in the later stages of World War II.<sup>27c</sup>

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<sup>27c</sup> For subsequent military aid, see chapter VII.



**FINANCIAL AID 1937-1943** <sup>27d</sup>

United States financial aid to China, like lend-lease and other military assistance, antedated the Japanese attack on Pearl Harbor. The Secretary of the Treasury, using the United States Stabilization Fund, entered into stabilization agreements in 1937 and 1941 to further the monetary and financial cooperation of the two Governments and the stabilization of the United States dollar-Chinese yuan rate of exchange. In an agreement of July 14, 1937, with the Central Bank of China, the Secretary of the Treasury agreed to purchase Chinese yuan up to an amount equivalent to 50 million dollars, with the proviso that all such yuan purchased were to be fully collateralized by gold. By February 1938, yuan equivalent to 48 million United States dollars had been purchased. Repurchase of this amount was completed by October 1942.

On April 1, 1941, the Secretary of the Treasury entered into a second agreement with the Government of China and the Central Bank of China to purchase Chinese yuan up to an amount equivalent to 50 million United States dollars. This agreement did not provide for collateralization of such purchases. It was further agreed at this time that a Stabilization Board be established, to which the Chinese Government banks were to contribute 20 million dollars. Purchase of yuan under this agreement amounted to 10 million dollars, and was repaid in April 1943.

At approximately the same time China concluded a similar agreement with the United Kingdom by which the latter extended to China a stabilization loan (£5,000,000) to be administered by the same Stabilization Board. Although the Sino-American and the Sino-British stabilization agreements were technically distinct, it had been agreed that all stabilization operations were to be carried on by a single Board composed of five members: three Chinese, one British, and one American.

On July 26, 1941, only a few months after the establishment of the Stabilization Board, the President of the United States issued a freezing order under whose terms the assets of China and Japan in the United States were placed under the supervision of the Treasury Department. The freezing of Chinese funds was undertaken at the specific request of Generalissimo Chiang Kai-shek. The administration of the controls with respect to Chinese assets was conducted with a view to facilitating the operations of the Stabilization Board and otherwise strengthening the foreign trade and exchange position of the Chinese Government.

<sup>27d</sup> See annex 28 (parts a-ii).

Besides aiding China in its efforts at currency stabilization, the United States extended credits to China through the Export-Import Bank. In general these were commodity credits which were used to purchase a considerable variety of American industrial and agricultural products and services. Credits aggregating 18.9 million dollars were authorized in 1936 and 1937. Four Export-Import Bank credits were granted between December 13, 1938, and November 30, 1940, amounting to 120 million dollars. In accordance with the agreements governing these four credits payment was made in large part by the sale to the United States of such Chinese products as tung oil, tin, tungsten, wolframite, and antimony. The credit had been repaid almost entirely by June 30, 1949.

Shortly after the United States became a belligerent in World War II President Roosevelt, in accordance with a request by the Generalissimo, asked the Congress to extend further financial aid to China. In a letter to the Congress dated January 31, 1942, the President declared: "Responsible officials both of this Government and of the Government of China have brought to my attention the existence of urgent need for the immediate extension to China of economic and financial assistance, going beyond in amount and different in form from such aid as Congress has already authorized. I believe that such additional assistance would serve to strengthen China's position as regards both her internal economy and her capacity in general to function with great military effectiveness in our common effort." The President enclosed a draft of a joint resolution which he urged Congress to pass authorizing the Secretary of the Treasury, with the approval of the President, "to loan or extend credit or give other financial aid to China in an amount not to exceed in the aggregate \$500,000,000." The joint resolution was promptly passed by Congress and was signed by the President on February 7, 1942 (Public Law 442).<sup>28</sup> Less than a week later the money to implement this resolution was appropriated. The United States and China signed an agreement on March 21, 1942, establishing this amount as a credit in the name of the Chinese Government.<sup>28a</sup>

At the time of the extension of this credit the Japanese offensive in the Pacific and in southeast Asia was in full swing and land communications with China were being severed. It was important to the United States that China should be strengthened and encouraged to continue the war against Japan. Since opportunities for giving

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<sup>28</sup> For President Roosevelt's message to Generalissimo Chiang immediately upon the enactment of Public Law 442, see annex 29 (a).

<sup>28a</sup> For a fuller treatment of this agreement, see annexes 28 and 29 (b).



effective material aid to China, such as was being rendered to Allies in more accessible areas through lend-lease, were not great, the 500 million dollar credit was characterized by the Secretary of the Treasury as the "financial counterpart of lend-leasing war materials."

The funds provided under the agreement of March 21, 1942, were used by the Chinese Government mainly to purchase gold for sale in China as an anti-inflationary measure and to provide backing for the issuance of Chinese Government savings and victory bonds denominated in United States dollars. A total of 220 million dollars was withdrawn in gold, much of which was shipped to China, principally during 1945, to be sold internally in an effort to control inflation by reducing currency in circulation and keeping down the price of gold.

A total of 200 million dollars was reserved for the redemption of Chinese Government securities issued in United States dollars—100 million dollars for payment of Chinese United States dollar savings certificates, and another 100 million dollars earmarked for the payment of Chinese United States dollar victory bonds. This earmarking was abandoned in 1946 and the funds became available for imports and other foreign payments as measures were promulgated governing payment of foreign currency bonds held in China which provided that such bonds would be redeemed in Chinese currency. It was also provided, however, that registered bond-holders outside China would be paid in foreign currency.

Of the 80 million dollar balance of this loan the sum of 55 million dollars was spent for the purchase of bank notes in the United States, and 25 million dollars for textiles imported into China.

The Chinese Government made use of this credit entirely on its own initiative and discretion. Efforts had been made to incorporate in the agreement a clause calling for consultation regarding use of the credit but the United States Government acceded to strenuous objections by the Chinese on this point. Although Chinese officials did offer informal assurances regarding consultation, they seldom availed themselves of the opportunity for United States advice in this regard and disregarded that which was obtained.

A more detailed treatment of the origin and uses of this credit, and of other war-time financial relations between the United States and China, together with pertinent documents, is attached as an annex.<sup>28b</sup>

Final determination of the terms upon which this financial aid was given was deferred, under the agreement of March 21, 1942, until after the war.

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<sup>28b</sup> See annex 28.



## RELINQUISHMENT OF AMERICAN EXTRATERRITORIALITY IN CHINA

Following the outbreak of war between the United States and Japan, the United States Government took a number of important steps which demonstrated the desire and intention of the United States to treat China as an equal among the Major Powers and to contribute to the strengthening of the Chinese nation.

On October 9, 1942, the United States took the initiative and suggested to China that a treaty be negotiated providing for the relinquishment of American extraterritorial rights in China and for the settlement of related questions. Provisions for such action had been included in the Sino-American Commercial Treaty of October 8, 1903, Article XV of which had provided:

"The Government of China having expressed a strong desire to reform its judicial system and to bring it into accord with that of Western nations, the United States agrees to give every assistance to such reform and will also be prepared to relinquish extra-territorial rights when satisfied that the state of the Chinese laws, the arrangements for their administration, and other considerations warrant it in so doing."

From that time on, it was the established policy of the United States to move toward relinquishment of American extraterritorial rights in China, but during the first quarter of the twentieth century conditions did not warrant such action.

The question of a general relinquishment of extraterritorial jurisdiction in China by the Treaty Powers was brought up at the Washington Conference in 1921-1922. The Conference adopted a resolution providing for the establishment of a Commission "to inquire into the present practice of extraterritorial jurisdiction in China, and into the laws and the judicial system and the methods of judicial administration of China" with a view to making recommendations to the respective Governments regarding the relinquishment of extraterritoriality.

The Commission on Extraterritoriality met in China in 1926. The Commission reported its findings of fact as a result of its investigations into the practice of extraterritorial jurisdiction and into Chinese laws and the Chinese judicial system and recommended improvements in the Chinese legal, judicial, and prison systems. The Commissioners expressed the opinion that "when these recommendations shall have been reasonably complied with, the several Powers would be warranted in relinquishing their respective rights of extraterritoriality." Subsequently, the Chinese Government adopted a pro-

gram with regard to the Chinese judicial system and Chinese prisons directed toward meeting the recommendations of the Commission.

The United States and China entered into active negotiations in 1930 looking toward the relinquishment of American extraterritorial rights in China. These discussions were far advanced when in 1931 they were suspended as a consequence of the Japanese military occupation of Manchuria, which was followed by Japanese disruptive activities in China south of the Great Wall in 1932 and 1935. The United States was giving renewed favorable consideration to the question of proceeding toward a relinquishment of extraterritorial jurisdiction in 1937 when Japan commenced its undeclared war by invading North China and subsequently Central and South China.

From the Japanese invasion of China in July 1937 until the outbreak of war between the United States and Japan in December 1941, the extraterritorial system operated to the advantage of the United States, China, and the other countries opposed to Japanese aggressive activities, by providing protection for recognized treaty rights which the Japanese effort at monopoly violated. Although conditions did not favor taking active steps toward relinquishment of extraterritorial rights in China, the United States policy remained firm that such steps should be taken as soon as practicable.

This policy was reaffirmed on several occasions by officials of the United States Government. In a statement to the press on July 19, 1940, the Acting Secretary of State, Sumner Welles, said:

"It has been this Government's traditional and declared policy and desire to move rapidly by process of orderly negotiation and agreement with the Chinese Government, whenever conditions warrant, toward the relinquishment of extraterritorial rights and of all other so-called 'special rights' possessed by this country as by other countries in China by virtue of international agreements. That policy remains unchanged."<sup>29</sup>

In reply to a letter from the appointed Chinese Minister for Foreign Affairs, Dr. Quo Tai-chi, Secretary Hull wrote, on May 31, 1941:

"As you are also aware, the Government and people of the United States have long had a profound interest in the welfare and progress of China. It goes without saying that the Government of the United States, in continuation of steps already taken toward meeting China's aspirations for readjustment of anomalies in its international relations, expects when conditions of peace again prevail to move rapidly by processes of orderly negotiation and agreement with the Chinese Government, toward relinquishment of the last of certain rights of

<sup>29</sup> See annex 30.



a special character which this country, together with other countries, has long possessed in China by virtue of agreements providing for extraterritorial jurisdiction and related practices.”<sup>30</sup>

The question of the relinquishment of extraterritorial jurisdiction in China was included in the informal conversations between the United States and Japan during 1941. The outline of a proposed basis for agreement between the two countries which the Secretary of State handed to the Japanese Ambassador on November 26, 1941, contained the following provision:

“5. Both Governments will give up all extraterritorial rights in China, including rights and interests in and with regard to international settlements and concessions, and rights under the Boxer Protocol of 1901.

“Both Governments will endeavor to obtain the agreement of the British and other governments to give up extraterritorial rights in China, including rights in international settlements and in concessions and under the Boxer Protocol of 1901.”

Immediately after the outbreak of war between the United States and Japan in December 1941, all energies were directed toward the prosecution of the war. While the United Nations were suffering serious military reverses in the Far East it was felt that any action toward relinquishment of extraterritorial jurisdiction in China would have been interpreted widely as a gesture of weakness. Even before the tide of battle in the Pacific turned in favor of the United Nations, however, the United States in the spring of 1942 started to give active consideration to the question of relinquishing extraterritoriality in China before the termination of hostilities.

After the Japanese thrusts into the Central and Southwest Pacific had been halted and United Nations forces were on the offensive in the Pacific and Chinese theaters, the United States took the initiative and suggested to the Chinese Government on October 9, 1942, that a treaty be concluded to provide for the relinquishment by the United States of extraterritorial and related rights in China. On October 24, 1942, the Secretary of State handed the Chinese Ambassador in Washington a draft text of the proposed treaty. Following negotiations between the two Governments, the treaty was signed on January 11, 1943, and became effective with the exchange of ratifications on May 20, 1943.<sup>31</sup> This treaty, together with a similar Sino-British treaty which was negotiated at the same time, was warmly approved by Chinese leaders.

<sup>30</sup> See annex 31.

<sup>31</sup> See annex 32.



## REPEAL OF CHINESE EXCLUSION ACTS, 1943

As a further indication of American policy, the President, on December 17, 1943, signed an Act, which had been passed by large majorities of both Houses of Congress, removing long-standing legislative discriminations against Chinese. The Act repealed the Chinese exclusion laws, established an annual Chinese immigration quota, and made legally admitted Chinese eligible to naturalization as American citizens. The enactment of this legislation had been specifically recommended by President Roosevelt in order to "correct an historic mistake" and give "additional proof that we regard China not only as a partner in waging war but that we shall regard her as a partner in days of peace."

## AMERICAN ACKNOWLEDGMENT OF CHINA AS A GREAT POWER

American recognition of the status of China as one of the Great Powers was demonstrated on two other occasions in the fall of 1943. The United States insisted that China be included as a signatory, together with the United Kingdom, the U.S.S.R., and the United States, of the Declaration of Four Nations on General Security, signed in Moscow on October 30, 1943, which recognized the right and responsibility of China to participate jointly with the other great powers in the prosecution of the war, the organization of the peace, and the establishment of machinery for post-war international co-operation.<sup>32</sup> The Cairo Declaration, issued on December 1, 1943, by President Roosevelt, Prime Minister Churchill, and Generalissimo Chiang Kai-shek, following their meeting at Cairo, Egypt, in the latter part of November 1943, declared their "purpose" that "Manchuria, Formosa, and the Pescadores shall be restored to the Republic of China."<sup>33</sup> On his return from the Cairo Conference President Roosevelt could say, in his Christmas Eve message to the Nation: "Today we and the Republic of China are closer together than ever before in deep friendship and in unity of purpose."

<sup>32</sup> Subsequently China participated as a Great Power in the Dumbarton Oaks conversations in the summer and fall of 1944, and was one of the sponsoring Powers of the United Nations Conference on International Organization, which met at San Francisco in 1945, and which formulated the Charter of the United Nations. The Charter granted China a permanent seat on the Security Council.

<sup>33</sup> See annex 33.

## CHAPTER II

# A Review of Kuomintang-Chinese Communist Relations, 1921-1944

### I. INTRODUCTION

Various internal factors arising from or influencing the course of the Chinese revolution have played a major role in the growth and development of American policy toward China. The rise of Asiatic nationalism, the impact of the West, the loss by the decadent Ch'ing Dynasty of what the Chinese call the "Mandate of Heaven," and the consequent struggle for succession to power have all been factors which inevitably modified and conditioned the efforts of the United States to conduct its relations with China in accordance with its traditional policies outlined in chapter I.

It is impossible here to analyze all these factors; but it is necessary at this point, if one is to understand the course and purposes of American actions in China since 1944, to pause and review at least in outline the long and tortuous relationship between the Kuomintang and the Chinese Community Party. This struggle for the acquisition and retention of power has played a major role in the internal Chinese scene for a quarter of a century, even at the expense of the prosecution of the war against Japan; it has been utilized by Major Powers in the pursuit of their own objectives and rivalries and in turn has affected them; and it has been a significant influence on the course of relations between China and the various Powers. In the crowded events of the last few years and the bitter readjustments of the postwar period it is easy to forget the origins and development of the Kuomintang-Communist struggle for supremacy; but they must be recalled if one is to understand and place in proper perspective the course of American policy since V-J Day. This struggle has had a great effect on American actions and attitudes.

### II. BASIC FACTORS

#### THE KUOMINTANG PROGRAM

The ideological basis of the Kuomintang was formulated by Dr. Sun Yat-sen during his years of conspiracy against the Manchu



regime and was elaborated in various of his writings after the 1911 revolution. Dr. Sun tried to make use of Western thought while constructing a solution specifically for China which would retain what he thought valuable in the Chinese tradition. His program has continued to form the theoretical basis of Kuomintang political thought.

Dr. Sun conceived of the Chinese revolution as taking place in three distinct stages: (1) military unification, (2) "political tutelage" and (3) constitutionalism.<sup>1</sup> The first stage was to be a period of military dictatorship. As soon as order should be restored, the second stage was to begin, during which the people were to be trained by the Kuomintang in the exercise of their political rights. Finally, the third stage of constitutional government was to be reached and the revolutionary process completed.

The long-term program that Dr. Sun Yat-sen hoped to put into effect in China was detailed in many of his writings, of which the *San Min Chu-I*, the "Three Principles of the People," is the best known. Briefly, his "Three Principles," are: (1) *min ts'u*, or "people's nationalism," under which China would regain her national integrity and cultural unity; (2) *min ch'uan*, or "people's democracy," under which the people would exercise the "four political powers" (suffrage, recall, initiative and referendum), by which they control the government, which in its turn exercises the "five governing powers" (legislative, judicial, executive, "examination" and censorial); and (3) *min sheng*, or "people's livelihood," a form of socialism involving equalization of land ownership, regulation of capital and avoidance of the class struggle.

Although Dr. Sun was impressed by the Bolshevik success in 1917 and although he accepted the tactical aid and advice of the Third International, he never subscribed to Communist ideas such as the class struggle; indeed, he stressed repeatedly that the class struggle could and should be avoided in China. Dr. Sun invited and accepted the aid and collaboration of the U.S.S.R., the Third International and the Chinese Communist Party only with the expressed understanding that "the Communist order or even the Soviet System cannot actually be introduced into China"<sup>2</sup> and that "in joining the Kuomintang,

<sup>1</sup> Sun Yat-sen, "Outline [Fundamentals] of National Reconstruction" (*Chien Kuo Ta Kang*), given in Leonard Shih Lien-hsu, *Sun Yat-sen: His Political and Social Ideas* (Los Angeles, 1933), and in Arthur N. Holcombe, *The Chinese Revolution* (Cambridge, 1930).

<sup>2</sup> Joint statement by Sun Yat-sen and Adolph Joffe, representative of Soviet Russia, in Shanghai, January 1923. See Chinese Ministry of Information, *China Handbook, 1937-1945* (official publication of the Ministry of Information of the Kuomintang) (New York, The Macmillan Company, 1947), p. 66.



Communists of the Third International are to obey Kuomintang discipline.”<sup>3</sup>

### THE COMMUNIST PROGRAM

The Chinese Communist program for the Chinese revolution is based on the Leninist theories of imperialism and revolution in semi-colonial countries. Although the theories have undergone changes at the hands of men like Mao Tse-tung, Chairman of the Central Committee of the Chinese Communist Party, basically they correspond to the orthodox concepts of Lenin and Stalin. Innovations introduced by Chinese Communist theoreticians have concerned details of the revolutionary time-table and not basic revolutionary principles. The long-term objectives of Chinese Communism are the orthodox Marxian goals of socialism and, ultimately, the classless, communist society.

In all countries the “bourgeois-democratic revolution” is considered by the Leninist theory to be “progressive” within certain limits, and even to be a prerequisite of eventual socialist revolution. The first objective of revolution in a colonial or semi-colonial country, however, is what the Communists call the liberation of the country from imperialism and feudalism. During this period even the development of capitalism is “progressive” but as the “bourgeois-democratic revolution” progresses, inherent class antagonisms will come to the fore and the bourgeoisie will come to ally itself with imperialism and feudalism against the working class. At this point, according to Lenin, collaboration between the bourgeoisie and the working class must cease. In a frequently quoted passage Lenin said:

“The Communist International should form *temporary understandings*, even *alliances*, with the bourgeois democracy of the colonies and the backward countries, but not merge with it, unconditionally preserving the independence of the proletarian movement, even in its most embryonic form . . . We, as Communists, must and will *support bourgeois emancipation* movements in the colonial countries only in those cases when these movements are really revolutionary, when their representatives will not hinder us in educating and organizing the peasantry and the large masses of the exploited in the revolutionary spirit.”<sup>4</sup>

The Chinese Communist advocacy of democracy during the early stages of the Chinese revolution must be considered in terms of the

<sup>3</sup> Statement by Li Ta-chao, one of the top-ranking Chinese Communists, *ibid.*, p. 66.

<sup>4</sup> E. Burns, *Handbook of Marxism* (New York, 1935), p. 896. The concluding sentence is used by Liu Shao-ch'i in his pronouncement “On Nationalism and Internationalism,” broadcast by the Chinese Communist North Shensi radio, Nov. 9 and 10, 1948. Italics as given in Burns, *op. cit.*

theory of "New Democracy" as propounded by Mao Tse-tung according to the Leninist formula. The Communist party, he wrote, has a role to perform even during the "bourgeois-democratic" stage of the Chinese revolution:

"The first stage of this revolution in colonial and semicolonial countries—though according to its social nature, it is fundamentally still a bourgeois-democratic one, of which the objective requirements still basically call for the clearance of the way to capitalistic development—yet, despite this, this revolution is no longer the old, wholesale bourgeois-led revolution for the building of capitalist society and a state of the bourgeois-dictatorship type, but a new type of revolution, wholly or partly led by the proletariat, the first stage of which aims at the setting up of a new democratic society, a new state of the combined dictatorship of all classes. The fundamental character of this revolution will never vary until the arrival of the stage of Socialist revolution, though during its progress, it may pass through several minor stages in accordance with the possible changes in the attitude of enemies and allies."<sup>5</sup>

The tactics to be followed by the Chinese Communist Party during the early stages of the revolution are implicit in the Communist analysis of the nature of the "bourgeois-democratic revolution." The Communist Party will in theory ally itself with such parties, groups, or classes as it considers "progressive," in order to hasten the revolution against feudalism and imperialism. But the great fear of the Communist Party is that it may lose the initiative and the leadership in the revolution to nationalists, reformers, or social-democrats. Communist tactics in China have steered a precarious course between the danger of "right opportunism," through which the initiative is lost, and that of "left extremism," which, according to Communist thinking, prematurely attempts to turn the "bourgeois-democratic revolution" into a socialist revolution and thus causes the Communists to lose their influence in the "bourgeois" revolution before the socialist revolution can be successfully prosecuted.

## FOUNDATION OF THE COMMUNIST PARTY, 1921

The first Communist groups in China were formed in Peking in 1919 and 1920 by Ch'en Tu-hsiu and various students, among whom was Mao Tse-tung. In 1920 at Baku, the Comintern convened a "Congress of Oriental Nations," at which China was represented. In May 1921

<sup>5</sup> Mao Tse-tung, "China's New Democracy," 1940, is included in the appendix to *The Strategy and Tactics of World Communism*, Supplement III (H. Doc. 154, part 3, 81st Cong., 1st sess.).



the foundation meeting of the Chinese Communist Party was convened in Shanghai by Ch'en Tu-hsiu and Li Ta-chao. During the following months the Chinese Communist Party was organized in various provinces and cities in China. Other Chinese Communist Groups were formed among Chinese students in France, Germany, Russia and Japan. In 1923 the Third Congress of the Communist Party met in Canton and, in accordance with a previous decision of the Comintern, decided to enter the Kuomintang and create a "united front" against the northern militarists.

#### REORGANIZATION OF THE KUOMINTANG, 1924

Meanwhile Dr. Sun Yat-sen, whose appeals for foreign aid had gone unanswered except by Russia and whose attempts to unify China through alliances with southern war-lords had ended in his being forced to flee from Canton to Shanghai, was carrying on discussions with Adolph Joffe, a representative of Russia. In January 1923 Dr. Sun and Joffe issued a joint statement setting forth the principles under which Russia and the Communist International were to aid the Chinese revolution during the ensuing years:

"Dr. Sun Yat-sen holds that the Communist order or even the Soviet system cannot actually be introduced into China because there do not exist here the conditions for the successful establishment of either communism or sovietism. This view is entirely shared by Mr. Joffe, who is further of the opinion that China's paramount and most pressing problem is to achieve national unification and attain full national independence, and regarding this task, he has assured Dr. Sun Yat-sen that China has the warmest sympathy of the Russian people and can count on the support of Russia."<sup>a</sup>

In partial fulfillment of this pledge of aid to Dr. Sun Yat-sen, Michael Borodin was sent to Canton in September 1923. Borodin quickly became the principal Kuomintang adviser. Under his direction the Kuomintang was reorganized at the First National Party Congress in January 1924 along the lines of the Russian Communist Party with centralized control extending from headquarters into the smallest subdivisions. The Kuomintang was now able to function with disciplined efficiency for the first time in its history. At the same Congress it was resolved that Communists who were willing to take an oath of obedience to the Kuomintang authorities and who accepted the principles of the Kuomintang should be admitted to the Party as individuals. Li Ta-chao declared in this connection:

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<sup>a</sup> *China Handbook, 1937-1945*, p. 66.



"In joining the Kuomintang, communists of the Third International are to obey Kuomintang discipline and to participate in the national revolution. They have not the slightest intention of turning the Kuomintang into a communist party. Those Communists who join the Kuomintang do so as individuals and not on a party basis."<sup>7</sup>

The objectives of the Kuomintang-Communist collaboration were declared to be the elimination of feudalism (i. e. at that time, the regime of the northern militarists) and the unification of the country so that China would be able to stand up against foreign Powers on a basis of equality.

### III. KUOMINTANG-COMMUNIST COLLABORATION, 1924-1927

In collaboration with the Communists and the Comintern advisers, the Kuomintang was able to accomplish a shift from the tactics of conspiracy it had previously employed to those of revolution. The Kuomintang assumed the leadership over the new forces that had been unleashed by the spread of nationalism in China. Through the use of propaganda among the peasant and working masses, the Kuomintang was able to turn its military campaigns into popular uprisings. Its army was put under the leadership of officers trained according to Soviet methods at the newly established Whampoa Academy, and achieved a degree of efficiency never before equaled in modern China.

Following the death of Dr. Sun Yat-sen in 1925, General Chiang Kai-shek, director of the Whampoa Academy, became the leading figure in the Kuomintang. In 1926 he commanded the "Northern Expedition," a campaign to unify China by destroying the power of the warlords in the north. The revolutionary forces, preceded by propaganda corps, made rapid progress, and toward the end of the year the Kuomintang capital was established at Hankow. A split in the party between the left wing at Hankow and the right wing under the leadership of General Chiang, however, was becoming increasingly evident. The latter was anxious to obtain the support of the middle classes, particularly the commercial and banking community of Shanghai, while the Communists were attempting to turn the Nationalist revolution into social revolutionary channels. In April 1927 the Generalissimo set up a government at Nanking rivaling that of the left faction of the Kuomintang which had gained dominance in Hankow. Following the capture of Shanghai in March 1927 he carried out a purge of the Communists in Shanghai, and somewhat later conducted a similar

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<sup>7</sup> *Ibid.*, p. 66.

one in Canton. These purges involved several hundred thousand deaths. It should also be remembered that leading figures on both sides were still in comparable positions twenty years later, which inevitably added great personal bitterness to the other factors which complicated the later negotiations.

Meanwhile the position of Borodin and the Communists in Hankow was becoming more difficult. Conflicting and ill-advised orders from Moscow, which was at the time in the throes of the Stalin-Trotsky controversy, did not help the position of the Communists. The crisis was precipitated when the Kremlin forced the Chinese Communists to demand majority control of the Kuomintang and separate workers and peasant armies. Borodin knew better than to present such a demand, but Roy, the Indian watchdog of the Third International, went over his head. By July, the Communist cause had collapsed and Borodin was forced to retire from China, while purges of the Communist element in Hankow were being carried out.

#### IV. CIVIL WAR, 1927-1936

Although the Communists had been expelled from both wings of the Party, unity within the Kuomintang was not restored until February 1928 when the Party was reorganized under the control of General Chiang Kai-shek. In June 1928 Kuomintang forces took Peking, completing the official unification of China and destroying the power of the northern warlords. After 1927, the principal obstacle to stability in China was the existence of Chinese Communist districts and troops in open rebellion against the National Government of China.

Once they had been purged from the cities and had lost their proletarian base, the Communist leadership concentrated on a small area in south Kiangsi which remained the remnant of a much larger South China peasant base. Since the economy of this area was wholly agrarian, Communist tactics shifted to exploitation of peasant difficulties. This was the forerunner of later Communist expansion and successes. It also represented the triumph of the Mao Tse-tung faction which opposed the urban policy of Li Li-san and favored an agrarian emphasis. Li Li-san, who had gone to Moscow, was not to return to prominence until the Russian army brought him to Manchuria in 1945.

In five major "bandit suppression campaigns," starting in December 1930 and lasting until 1935, the Generalissimo attempted to exterminate the Communist forces in China. These campaigns were launched as follows: (1) December 1930, under Lu Ti-p'ing; (2) May 1931, under Ho Ying-ch'in; (3) June 1931, under Chiang Kai-shek;



(4) April 1933, under Ch'en Ch'eng; (5) October 1933, under Chiang Kai-shek.

The fourth and particularly the fifth campaigns were planned with the assistance of the German military advisers Von Seeckt and after him Von Falkenhausen. Hundreds of thousands of troops were mobilized by the Nationalists. The campaigns did not succeed in exterminating the Communists, but the Generalissimo was able to dislodge them from their bases in southern China, forcing them to flee to a base in the northwest in the "long march" of 1934-1935. An incidental effect of the anti-Communist campaigns was the consolidation of Nationalist political control over many of the provinces that had previously maintained a degree of regional autonomy.

## V. THE KUOMINTANG-COMMUNIST ENTENTE, 1937-1944

### BACKGROUND OF THE ENTENTE

While the National Government was engaged in the problem of suppressing Communism, Japan embarked upon a series of encroachments on Chinese territory, beginning with occupation of Manchuria in 1931 and leading up to the Marco Polo Bridge incident on July 7, 1937.

The Japanese actions aroused large sectors of Chinese opinion. The effect of this aggression was similar in many ways to the effect of the earlier Twenty-one Demands and the insistence by Japan at the Paris Peace Conference that it be ceded the German rights in the Shantung peninsula. Again there was an upsurge of nationalism, particularly after 1935, when the loss of the northern provinces was threatened. The revival of patriotism included most of politically conscious China—elements ranging from warlords to students. Resistance against Japanese aggression became a popular slogan exploited not only by leftist intellectuals, such as those united in the National Salvation League, but also by dissident militarists.

The Chinese Communists had declared "war" on Japan as early as 1932 while their main force was still concentrated in Kiangsi, hundreds of miles from the nearest Japanese troops.<sup>8</sup> Although demands for a "united front" became a factor in the Communist propaganda, the Chinese Communist Party at first offered no concessions to other groups to make possible a true "united front" but insisted on retaining

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<sup>8</sup> See the "Circular Telegram of the Provisional Central Government of the Soviet Republic of China Declaring War Against Japan," given in V. A. Yakhontoff, *The Chinese Soviets* (New York, 1934), pp. 236-38.



full control over any anti-Japanese coalition. In 1935 the Seventh World Congress of the Comintern officially proclaimed the new policy of the "united front" and offered the cooperation of Communist parties to other groups willing to fight fascism. At that time, the Chinese Communist Party was criticized because it had "not yet succeeded in carrying out these tactics [of the united front] really consistently and without mistakes," and because the concept of the "united front" had not been broad enough. The Chinese Communist Party was specifically censured for failing to unite with the dissident anti-Japanese militarists who had rebelled against the Nanking government in Fukien Province in 1933.<sup>10</sup> Following the Congress, the first serious offers of a "united front" were made to the Kuomintang. In January 1936 the Chinese Communist Party publicly offered the "hand of friendship" to Generalissimo Chiang Kai-shek if he would take up arms against Japan. On August 26, 1936, the Chinese Communist Party proclaimed to the Kuomintang, "we are prepared to form a strong revolutionary united front with you as was the case during . . . the great Chinese Revolution of 1925-1927 . . . [that] is the only proper way to save our country today."

Coming at a time of growing patriotic resentment against Japanese aggression, the stepped-up demands for a "united front" by the Chinese Communist Party were an effective propaganda weapon for use against the troops to which the National Government had assigned the task of "bandit suppression" in northwest China. By the end of 1936 the army of Chang Hsueh-liang, the former warlord of Manchuria, was in no mood to fight against the Communist forces. In December 1936 the Generalissimo and his staff visited Sian in Shensi Province to map out a sixth "Bandit Suppression" campaign. Rather than carry out Nationalist orders to resume operations against the Communists, Chang Hsueh-liang decided to "arrest" the Generalissimo. In this move he was acting in league with the commander of the "Hsipei" (Northwestern) troops, Yang Hu-ch'eng, and the subordinate commanders of both the Hsipei army and his own "Tungpei" (Manchurian) army.

On the day of the *coup* the commanders of the "Tungpei" and "Hsipei" armies issued a circular telegram stating the demands of "national salvation," consisting of eight points: reorganization of the Nanking government and admission of parties to share the joint responsibility of national salvation; end of the civil war and armed resistance against Japan; a release of the leaders of the patriotic move-

<sup>10</sup> Wang Ming, *The Revolutionary Movement in the Colonial Countries, Report to the VII World Congress of the Communist International, August 7, 1935* (New York, 1935).

ment in Shanghai; pardon of all political prisoners; a guarantee of liberty of assembly; safeguard for the people's rights of patriotic organization and political liberty; putting into effect the will of Dr. Sun Yat-sen; and convening a National Salvation Conference.<sup>11</sup>

These points corresponded generally to a program of "national salvation" advocated by the Communist Party in a telegram issued earlier in December. They also resembled a manifesto issued by the "All-China Federation of National Salvation" on May 31, 1936.

The details of the Sian incident have been obscured by the personal considerations involved in the available accounts. According to one version, Chang Hsueh-liang and some of his associates considered the Generalissimo their leader and merely wished to awaken him to the danger of Japanese aggression, although other more radical officers of the "Tungpei" army favored executing him. The Chinese Communist Party, whose representatives were called to Sian immediately after his capture, at first favored the execution of the Generalissimo, but, apparently on orders from Moscow, shifted to a policy of saving his life. The Chinese Communist concept, inspired from Moscow, became one of promoting a "united front" with the Generalissimo and the National Government against the Japanese; this concept seems to have played a considerable role in saving the life of the Generalissimo. At any rate, on December 25, 1936, the Generalissimo returned to Nanking, accompanied by his captor Chang Hsueh-liang, who expressed sentiments of repentance. It seems certain that no agreement between the Generalissimo and the Communist or Tungpei leaders was signed. It seems equally certain, however, that an understanding of some kind was reached by the groups involved. After the Sian incident the establishment of an entente between the Chinese Communists and the Kuomintang moved rapidly ahead.<sup>12</sup>

The wartime entente between the Kuomintang and the Chinese Communist Party was never formalized by a written alliance, but rested upon a series of parallel documents issued by the two parties, by which the Kuomintang announced the change in Chinese Government policy from one of military suppression of communism to that of seeking a political settlement, and by which the Chinese Communist Party proclaimed the abandonment of forceful insurrection and sovietization in favor of cooperation with the Government against Japanese aggression. These documents are (1) the telegram from the

<sup>11</sup> See annex 34.

<sup>12</sup> A first-hand account of the Sian incident is given in Mme. Mei-ling (Soong) Chiang, *China at the Crossroads; an Account of the Fortnight in Sian, when the Fate of China Hung in the Balance* (London, Faber and Faber, 1937). This work was also published with varying titles in New York and Shanghai.



Central Committee of the Chinese Communist Party to the Third Plenary Session of the Kuomintang Central Executive Committee on February 10, 1937; (2) the resolution of February 21, 1937 of the Third Plenary Session of the Kuomintang Central Executive Committee; (3) the manifesto of September 22, 1937 by the Central Committee of the Communist Party; and (4) the statement on the following day by Generalissimo Chiang Kai-shek commenting on the Communist manifesto.

### **THIRD PLENARY SESSION OF THE KUOMINTANG CENTRAL EXECUTIVE COMMITTEE, 1937**

Shortly after the return of the Generalissimo from Sian, the Third Plenary Session of the Fifth Central Executive Committee of the Kuomintang was held in Nanking. On February 10, 1937, five days before the session opened, the Central Committee of the Chinese Communist Party addressed a telegram to the session which recommended a program including the suspension of civil war and the concentration of the national strength against external aggression, a guarantee of civil rights, the calling of a "national salvation" conference, the preparation for armed resistance and improvement in living conditions of the people. If these points were approved, the Communist Party declared itself prepared to make certain alterations in the policies that had characterized its activities:

1. to stop the program of armed uprisings throughout the country for the overthrow of the National Government in Nanking;
2. to change the Chinese Soviet Government into the Government of the Special Region of the Republic of China and the Red Army into the National Revolutionary Army under the direct leadership of the Military Affairs Commission in Nanking;
3. to enforce the democratic system of universal suffrage within the special regions under the regime of the Government of the Special Regions;
4. to put an end to the policy of expropriating the land of the landlords and to execute the common program of the anti-Japanese united front.<sup>13</sup>

The question of reconciliation with the Communists was dealt with at length by the Third Plenary Session in a resolution passed on February 21, 1937. The resolution reviewed the original leniency of Sun Yat-sen in admitting Communists to the Kuomintang in 1924

<sup>13</sup> Text in *New China* (Yenan, Mar. 15, 1937). See annex 35.



and their "subsequent treasonable and rebellious activities" up to the time of the session, when the "Communist bandits, reduced to straits in the Northwest, have begun to announce alleged willingness to surrender." The resolution stated that the Kuomintang would give the Communists a chance to "reform" on four conditions:

1. Abolition of the separate army and its incorporation into the united command of the nation's armed forces.
2. Dissolution of the so-called "Chinese Soviet Republic" and similar organizations and unification of the government power in the hands of the National Government.
3. Absolute cessation of Communist propaganda and acceptance of the Three People's Principles.
4. Stoppage of the class struggle.<sup>14</sup>

These points corresponded closely to the changes in policy the Communist Party had declared itself willing to make. After having laid down the conditions on which the Communists would be permitted to "start life anew", the session in its closing manifesto blamed the Communists for terroristic activities since 1927, "thus undermining the nation's strength which otherwise would have been employed in resisting the invader." The cardinal policy of the Kuomintang was declared to be the eradication of the Communist scourge. However, the achievement of unity through peaceful means was to be the guiding principle, although the Chinese people were warned against the fallacious theories of the class struggle.<sup>15</sup>

These documents established the basic conditions for the entente. During the ensuing months negotiations between the parties continued. Chou En-lai held discussions with the Generalissimo and other Kuomintang officials at Kuling, summer capital of China. Other meetings were held within Chinese Communist territory.

Many of the conditions of the entente were implemented during the course of the negotiations. The civil war ceased. The Communist policies of land confiscation were suspended, and Communist propaganda was preparing the people for the united front. The Kuomintang was making active preparations for increased democratization, including the calling of a People's National Congress for November 1937 to inaugurate a new constitution.<sup>16</sup> Many, though by no means all, of the political prisoners held by the Kuomintang were released.

<sup>14</sup> *The China Year Book, 1938*, pp. 532, 470; *China Handbook, 1937-1945*, p. 66.

<sup>15</sup> *China Handbook, 1937-1945*, p. 66.

<sup>16</sup> Because of the war and repeated postponements this Congress did not meet until November 1946.

**MANIFESTO OF THE CHINESE COMMUNIST PARTY, SEPTEMBER 22, 1937**

Apparently public announcement of the entente was originally scheduled for the middle of July 1937, when a Chinese Communist manifesto was handed to the Kuomintang, declaring that Chinese unity had been restored for the purpose of resisting Japan. Publication of the manifesto was delayed until September 22, 1937, because of the outbreak of hostilities with Japan after the Marco Polo Bridge incident of July 7, 1937.

The manifesto of the Central Committee of the Communist Party, published on September 22, 1937, stated that the Communist Party had "on the basis of peace and national unity and joint resistance against foreign aggression, reached an understanding with the Kuomintang" and proposed the following objectives:

"(1) Struggle for the independence, liberty and emancipation of the Chinese nation by promptly and swiftly preparing and launching the national revolutionary campaign of resistance. . . .

"(2) Enforce democracy based on the people's rights and convoke the National People's Congress in order to enact the Constitution and decide upon the plans of national salvation.

"(3) Improve the well-being and enrich the livelihood of the Chinese people. . . ."

The manifesto expressed the belief that the whole country would support these objectives, although the program would meet with numerous difficulties, particularly from Japanese imperialism, and declared:

"(1) The *San Min Chu-I* enunciated by Dr. Sun Yat-sen is the paramount need of China today. This Party is ready to strive for its enforcement.

"(2) This Party abandons its policy of overthrowing the Kuomintang of China by force and the movement of sovietization, and discontinues its policy of forcible confiscation of land from landowners.

"(3) This Party abolishes the present Soviet Government and will enforce democracy based on the people's rights in order to unify the national political machinery.

"(4) This Party abolishes the Red Army, reorganizes it into the National Revolutionary Army, places it under the direct control of the National Government, and awaits orders for mobilization to share the responsibility of resisting foreign invasion at the front."<sup>17</sup>

<sup>17</sup> Full text given in annex 36.



**STATEMENT BY GENERALISSIMO CHIANG KAI-SHEK,  
SEPTEMBER 23, 1937**

On September 23, 1937, the day following the publication of the Communist manifesto, the Generalissimo issued a formal statement welcoming the change in Communist policies:

"The Manifesto recently issued by the Chinese Communist Party is an outstanding instance of the triumph of national sentiment over every other consideration. The various decisions embodied in the Manifesto, such as the abandonment of a policy of violence, the cessation of Communist propaganda, the abolition of the Chinese Soviet Government and the disbandment of the Red Army are all essential conditions for mobilizing our national strength in order that we meet the menace from without and guarantee our own national existence.

"These decisions agree with the spirit of the Manifesto and resolutions adopted by the Third Plenary Session of the Kuomintang. The Communist Party's Manifesto declares that the Chinese Communists are willing to strive to carry out the Three Principles. This is ample proof that China today has only one objective in its war efforts."<sup>18</sup>

**IMPLEMENTATION OF THE AGREEMENTS, 1937-1938**

During 1937 and 1938 a number of concrete steps were taken to implement the entente and to further the united resistance against the Japanese invasion. By order of the National Government the Chinese Communist Army was reorganized as the Eighth Route Army, and later into the 18th Group Army, with the Communist generals Chu Teh and P'eng Te-huai as commander and vice-commander, and Lin Piao, Ho Lung, and Liu Po-ch'eng as division commanders. The Eighth Route Army was designated to garrison the area of the Shensi-Kansu-Ningsia (Shen-Kan-Ning) border region, the former Communist area. Shortly afterwards the Communists, whose area of control was expanding as a result of their guerrilla warfare efforts, established the Shansi-Chahar-Hopei (Chin-Cha-Chi) border region government under the National Government. The Chin-Cha-Chi regional government received the sanction of the National Government in January, 1938; it was the only Communist-dominated local government to receive such formal sanction. During the first three years of the entente the Communist armies received a monetary subsidy from the National Government, as well as a small allotment of ammunition.

In addition the National Government carried out a number of measures regarding civil rights and greater democratization, although

<sup>18</sup> Full text in annex 37.



due to wartime conditions it did not call the National Assembly into session to act on a new Chinese constitution. The Communist Party was permitted to publish its own newspaper, the *Hsin Hua Jih-Pao* (*New China Daily*) in Hankow.<sup>18a</sup> Chou En-lai was one of the seventeen members of the presidium of the Extraordinary National Congress of the Kuomintang in March 1938 and was appointed Vice-Minister of the Political Training Board of the National Military Council, a position he held until 1940.

Among the more important steps towards increased democracy and freedom of discussion taken by the Kuomintang during this period was the creation by the Extraordinary National Congress of the Kuomintang in March 1938 of the People's Political Council (PPC), with powers to discuss and question all important Government measures and to make proposals to the Government. Although the People's Political Council was purely advisory, the prestige of its members and the caliber of its discussions made it a significant body.

The most important policies of this period are embodied in the "Program of Armed Resistance and National Reconstruction," which was adopted by the Kuomintang Party Congress on April 1, 1938, and subsequently by the People's Political Council. The "Program" was accepted by both the Kuomintang and the Chinese Communist Party as the basic outline of principles to be followed by the wartime entente, subsidiary only to the *San Min Chu-I* (Three People's Principles).<sup>19</sup> The Program pledged China to play a just role in world affairs, urged intensified military activity, called for governmental reforms, increased economic growth and the organization of the people.

The period during which the National Government was located at Hankow marked the high point of Kuomintang-Communist cooperation. In spite of continued defeats of the Chinese armies by Japan, the solidarity of the Chinese people created a spirit of optimism. The Generalissimo emerged as the symbol of national unity and of eventual victory.

#### **DETERIORATION OF KUOMINTANG-COMMUNIST RELATIONS, 1938-1941**

In the latter half of 1938 relations between the Kuomintang and the Chinese Communist Party began to deteriorate. At the end of August the Hankow-Wuchang Defense Headquarters outlawed three Communist-sponsored mass organizations because it feared the Communists would use them to gain influence in Nationalist territory.

<sup>18a</sup> This Communist paper continued to be published in Nationalist territory throughout the war.

<sup>19</sup> Text is given in *China Handbook, 1937-1945*, pp. 61-62.

After the fall of Hankow in October 1938 Communist-Kuomintang relations worsened steadily. More Communist organizations were suppressed. The Communists were attacked for failing to yield control over their area in Shensi Province to the National Government, and for not allowing the National Government to exercise direct command over the Communist armies in the field and to direct their training.

In the following years relations between the two parties remained strained, and charges and countercharges of failure to abide by the promises of 1937 became increasingly violent, often leading to local clashes between Chinese National and Communist forces. The one policy common to both parties was resistance against the Japanese invasion, and even this was often neglected amid the jockeying for advantage between the two parties. However the resumption of open hostilities on a large scale was avoided. During 1939 the National Government, at that time located in Chungking, began to enforce a rigid military blockade of the Communist areas to prevent Communist infiltration into Nationalist China. The expansion of Communist military forces into areas outside the regional defense zones assigned them by the National Government led to incidents and continuous skirmishes between the Communists and Nationalists. The arguments and fighting over the demarcation between Communist and Nationalist military zones culminated in the "New Fourth Army Incident" of January 1941, the most serious wartime clash between Nationalist and Communist armies and the real beginning of civil strife. The fighting reached such proportions that it received world-wide attention. The Government version of the incident was that it had issued orders for the Communist New Fourth Army to move north of the Yangtze and engage the Japanese in the Yellow River area, but the orders had been ignored because the Communists wished to expand their holdings in the south. For reasons of discipline it was therefore necessary to disarm them. It was the Communist contention that the Government purpose was to restrict Communist areas and at the same time place the New Fourth Army in a hopeless military position.

#### KUOMINTANG-COMMUNIST NEGOTIATIONS, 1941-1944

In spite of the frequent military friction between the Communist and Nationalist forces, the Government policy remained that of seeking a political settlement with the Communists. On March 6, 1941, in a reference to the "New Fourth Army Incident" in a speech to the People's Political Council, the chief arena in which attempts were made to settle the issue between the Communists and Kuomintang, the Generalissimo said:



"... the Government is solely concerned with leading the nation against the Japanese invaders and extirpating the traitors, and is utterly without any notion of again taking up arms to 'suppress the Communists.' . . . Provided unity can be preserved and resistance carried on to the end, the Government will be ready to follow your direction [i. e., the directions of the PPC] in the settlement of all outstanding questions."<sup>20</sup>

No settlement was reached between the Kuomintang and the Chinese Communist Party, however, and the relations between the two armies continued strained, with periodic fighting, while at the meetings of the People's Political Council a group of minor parties continued attempts at mediation. These minor parties had formed the "United National Construction League"<sup>21</sup> at the end of 1939, with the principal object of preserving Kuomintang-Communist cooperation. Minor parties played an important, if unsuccessful, role in the negotiations between the Communists and the Kuomintang prior to the offer of American good offices in 1944 by Major General Patrick J. Hurley, the Personal Representative of President Roosevelt.

Attempts to settle the Kuomintang-Communist differences were not limited to discussions and statements before the PPC. On a number of occasions direct negotiations between Communist and Nationalist officials took place. The first of these occasions was the talks between General Ho Ying-ch'ın, Minister of War in the National Government, and Chin Pang-hsien (Po Ku), a member of the Chinese Communist Party's Central Committee, early in 1940.

In September 1943 the Generalissimo gave explicit instructions to the Eleventh Plenary Session of the Fifth Central Executive Committee of the Kuomintang that the Chinese Communist problem should be handled by peaceful means:

"After hearing the Secretariat's report on the question of the Chinese Communist Party and the views expressed by various members of the Central Executive Committee, I am of the opinion that first of all we should clearly recognize that the Communist problem is a purely political problem and should be solved by political means. Such ought to be the guiding principle for the Plenary Session in its effort to settle this matter."<sup>22</sup>

Following the Eleventh Plenary Session, Communist General Lin Piao conducted negotiations in Chungking during November 1943 on the reorganization of the Communist forces.

<sup>20</sup> This speech is given in full in annex 38.

<sup>21</sup> This League went through several reorganizations and finally became known as the Democratic League.

<sup>22</sup> The full text is given in annex 39.



More comprehensive discussions between representatives of the Chinese Government and the Chinese Communist Party began in Sian on May 4, 1944. The Government was represented at these talks by General Chang Chih-chung of the National Military Council and Dr. Wang Shih-chieh, then Minister of Information. The Communists were represented by Lin Tzu-han, an important member of the Central Committee of the Chinese Communist Party. Chang, Wang and Lin returned to Chungking on May 14, 1944, and continued the negotiations through an exchange of memoranda until September, when the negotiations were discussed in detailed reports to the PPC by Chang Chih-chung and Lin Tzu-han.

During these discussions the following major points were brought up:

1. The disposition, size, command, and training of the Communist armies.
2. The relationship between Communist-organized regional governments and the National Government.
3. Problems connected with civil rights and especially the legalization of the Communist Party and its activities in Nationalist areas.

Incidental to these points a number of problems arose which were connected with the implementation of various pledges made by the Communist Party and the Kuomintang throughout the period of Kuomintang-Communist entente. During these discussions the question of constitutional government arose, and suggestions for "coalition government" were brought forth for the first time.

Although no settlement was reached on the basis of these discussions, it is clear that from May to September 1944 the Chinese Government and the Chinese Communist Party were seeking a peaceful settlement of their disputes through political negotiations.<sup>23</sup>

#### THE WALLACE MISSION, 1944

During the spring of 1944, President Roosevelt appointed Vice President Henry A. Wallace to make a trip to China to see what he could do toward consolidating the Chinese war effort against Japan. Mr. Wallace took this opportunity to visit Soviet Central Asia for a brief inspection of agricultural developments, and arrived in Chungking the latter part of June. In the course of this visit Mr. Wallace had several long conversations with the Generalissimo on matters of mutual interest. The notes made on these conversations indicate that

<sup>23</sup> See annexes 40, 41, and 42.

a wide range of topics was discussed of which the majority have no bearing on the events and issues described in this present paper.<sup>24</sup>

In a conversation on June 21 with the Generalissimo, Mr. Wallace stated that the President had indicated to him that if the Kuomintang and the Communists could not get together they might "call in a friend". The President had indicated that he might be that friend. John Carter Vincent, in a conversation the next morning, said that Stalin had agreed with Ambassador Harriman in Moscow that support of the Generalissimo was desirable during the prosecution of the war and expressed keen interest in a settlement between the Kuomintang and the Communists, basing his interest on the practical matter of more effective fighting against Japan rather than upon any ideological considerations, and adding that he felt the United States should assume a position of leadership in the Far East.

During a conversation on the afternoon of June 22, the Generalissimo launched into a lengthy complaint against the Communists, whose actions, he said, had had an unfavorable effect on Chinese morale. He added that the Chinese people regarded them more as internationalists than as Chinese, despite the nominal dissolution of the Third International. He then added that the Communists desired the breakdown of Chinese resistance against Japan because this would strengthen their own position. They did not fear such a development because they were now convinced that Japan would be defeated without Chinese resistance. The Generalissimo deplored propaganda to the effect that they were nothing more than agrarian democrats and remarked that they were more communistic than the Russians. He said that a settlement with the Communists would be simple if they would agree to support the Government and accept a peaceful and political role in the administration of the country. He urged that the United States maintain an attitude of "aloofness" toward the Communists which would encourage them to show a greater willingness to reach a settlement with Kuomintang. The Foreign Minister, who was present at the conversation, interposed at this stage to say that whereas the Government required the Communists to submit to its authority, it was not its intention to interfere in local administration or remove officials or army officers who showed themselves to be cooperative. In conclusion, the Generalissimo said that he understood the policy of President Roosevelt and requested that the

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<sup>24</sup> See annexes 43 and 44, for summary notes of these conversations made by John Carter Vincent, then Chief of the Division of Chinese Affairs of the Department of State, who accompanied the Vice President to China. The Department is not aware of any written record which Mr. Wallace himself may have made.



President be informed that he, the Generalissimo, desired a political solution of the Communist problem.

It was in a conversation on the following morning, June 23, that the Generalissimo suddenly reversed his previous refusal to permit Americans in Communist territory and agreed that an American military observer mission could proceed.<sup>25</sup> Later in the conversation the question of Russia again rose. Mr. Wallace stressed the point that no situation should be permitted in China which might lead to conflict with Russia. The Generalissimo agreed and added that anything not detrimental to Chinese sovereignty would be done to avoid such a conflict. Mr. Wallace again said that the United States could not be expected to be a party to any negotiations. The Generalissimo expressed his concurrence and said that China would seek an early opportunity for discussions with Russia. In another conversation later in the day, the Generalissimo asked that the following message be conveyed to the President: "If the United States can bring about better relations between the U. S. S. R. and China, and can bring about a meeting between Chinese and Soviet representatives, President Chiang would very much welcome such friendly assistance."<sup>26</sup>

During the ride to the airport on June 24, the Generalissimo twice expressed his appreciation that Mr. Wallace, as a representative of President Roosevelt, should lend his efforts for the improvement of Sino-Soviet relations. The Generalissimo also said he would welcome the assistance of the President in the settlement of the Communist problem, even though it was an internal one. He also expressed his conviction that the Communists were not men of good faith, but that if the President were willing to take the risk of helping he would be happy to have such assistance and would not consider it as meddling in internal affairs.

## CONCLUSION

In September 1944 the negotiations went into a new phase with the arrival of General Hurley as the Personal Representative of the President of the United States with the mission of promoting harmonious relations between Generalissimo Chiang and General Stilwell, and of performing certain other duties in connection with military supplies. It was only a few months later after the termination of the original

<sup>25</sup> Unsuccessful attempts had been made previously by the United States Army to secure Chinese permission for an observer group to go to Communist territory. On June 22 Mr. Wallace mentioned the subject and received an evasive answer from the Generalissimo.

<sup>26</sup> These views should be considered in connection with chapter IV.



mission that the Kuomintang-Communist struggle, with the entrance of the United States on the scene, due to the need for prosecuting the war against Japan, took on an international aspect, which it had not possessed since the expulsion of the Russian Mission in 1927. The intervening seventeen years of bitter civil war and subsequent reluctant cooperation, under external threat, had created deep-seated hatreds, suspicions, differences of approach and objective, and a reluctance to forget the past which, more severely than was perhaps realized at the time, limited what could usefully be contributed by outside assistance.

## CHAPTER III

# The Ambassadorship of Major General Patrick J. Hurley, 1944-1945

## I. IMMEDIATE BACKGROUND OF THE HURLEY MISSION

### INTRODUCTION

Major General Patrick J. Hurley was appointed Personal Representative of the President to China on August 18, 1944. He arrived in Chungking on September 6, 1944. Mr. Clarence E. Gauss resigned as Ambassador to China on November 1, 1944, and General Hurley was nominated for the position on November 30, 1944. He presented his credentials on January 8, 1945.

To understand the reasons for the mission of General Hurley to China it is necessary to take into account the conditions which existed internally in China in 1943 and 1944. As indicated above, the Chinese record of opposition to Japanese aggression had been a distinguished and enviable one which commanded the admiration and sympathy of all peoples throughout the world who were opposing aggression. By 1943, however, the devitalizing effects of six years of war were beginning to make themselves felt. This trend in 1944 became pronounced to an alarming degree.

The long years of war were taking a heavy economic toll. Many of the most productive areas of China had been occupied by Japan. Inflation began to set in and the new Chinese middle class which had been the backbone of Kuomintang liberalism found itself being progressively beggarized. In this situation the extreme right wing and reactionary elements in the Kuomintang came to exercise increasing power and authority. The regular and periodic political reports of the Embassy in Chungking indicated a steady deterioration in the economic situation and a growing paralysis within the governmental administrative hierarchy. It was symptomatic that the Embassy reported that the Twelfth Plenary Session of the Fifth Kuomintang

Central Executive Committee had met in May 1944 but apparently accomplished little and had resulted in a serious setback for liberal elements in the Party. The Embassy also reported that liberal elements in the Party were discouraged by the trend but hoped that developments would support their contention that Kuomintang leadership was bankrupt.

The protracted background of developments outlined in chapter II contributed to the particular state of relations between the Chinese Communists and the National Government which existed when General Hurley embarked on his mission. As has already been pointed out, following the Sian incident in late 1936 the Chinese National Government and the Chinese Communist Party had indicated their intention to present a united front against the Japanese invaders and to settle their differences by political means. Negotiations between the Communists and the National Government had been proceeding over a period of seven years prior to General Hurley's mission to China. In his instructions to the Eleventh Plenary Session of the Fifth Central Executive Committee of the Kuomintang held in September 1943, the Generalissimo had stated that he was of the opinion that "first of all we should clearly recognize that the Chinese Communist problem is a purely political problem and should be solved by political means";<sup>1</sup> that is, through negotiations rather than through force. Accordingly, in the spring of 1944, active negotiations had been conducted at Sian by the National Government represented by Dr. Wang Shih-chieh and the Chinese Communist Party represented by Lin Tsu-han.

Despite the announced intention of the Chinese Government and the Chinese Communist Party to seek a political, that is a negotiated, solution of their differences, and notwithstanding the fact that negotiations were being actively conducted to that end, the Chinese military effort against Japan was increasingly handicapped by internal disunity.

In a conversation on July 3 with an officer of the Embassy, Dr. Sun Fo, President of the Legislative Yuan, said he had discussed the situation frankly with the Generalissimo. He had told him that the Chinese armies must be rehabilitated if they were to be effective. He also pointed out that one of the principal obstacles to effective prosecution of the war was the immobilization of some 300,000 of the Government's best troops to watch the Chinese Communists. This factor, he said, also immobilized large Chinese Communist forces which had fought well against Japan and could do so again. Dr. Sun said he had told the Generalissimo that the Chinese Communists did

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<sup>1</sup> *China Handbook, 1937-1945*, p. 67.



not want to communize or dominate China, that it would in any case be impossible for them to do so and that what they wanted was a settlement which would enable them to cooperate with the Nationalist Government against Japan. Dr. Sun added to the Embassy officer that the Generalissimo was used to making decisions himself and not taking advice. Dr. Sun felt, however, that his remarks had had some effect and that the Generalissimo was actually seeking in his own mind for means of reorienting some of his ideas. Dr. Sun felt that American opinion could be of assistance in this process if it did not appear to be bringing pressure on the Generalissimo.

However discouraged other elements may have been by the internal deterioration and stalemate in the Chinese war effort against Japan, no such note appeared in the words or actions of the Generalissimo. In his Double Tenth speech of October 10, 1944, he reiterated his determination to fight to the end and to preserve his leadership in the struggle for the consolidation of China. He also showed himself sensitive to foreign criticisms of internal developments and in a rather ominous note implied that foreign powers would be well advised not to interfere in the internal affairs of China, particularly in the relations of the National Government with the Chinese Communists.

The foregoing considerations were repeatedly reflected in the reports made in 1944 by the American Ambassador, Mr. Gauss. As he often emphasized, these factors were having a disastrous effect upon the Chinese effort in the war against Japan. His comments and observations were substantiated by periodic reports he received from American consular officials in such widely diversified areas as Fukien, Kweilin, Kunming, Chengtu, Sian and Lanchow.

Other American observers in China were becoming increasingly apprehensive over the fact that neither the Chinese Government nor the Chinese Communists were directing their main efforts against Japan. Congressman Mansfield in January of 1945 in his report to Congress following his return from his mission to China summarized this opinion: "On the basis of information which I have been able to gather, it appears to me that both the Communists and the Kuomintang are more interested in preserving their respective Parties at this time and have been for the past two years than they are in carrying on the war against Japan. Each Party is more interested in its own status because both feel that America will guarantee victory."

## CHINESE UNITY AND THE WAR EFFORT

Ambassador Gauss had emphasized this point of view in a conversation with the Generalissimo on August 30, 1944.<sup>2</sup> He reported that

<sup>2</sup> See annex 45.

the Generalissimo had sent for him and had discussed the Chinese Communist problem for an hour and a half, saying that Washington did not understand the problem and it was the duty of the Ambassador to see that it did. In addition to making charges of bad faith and treachery against the Chinese Communists, General Chiang stated that the attitude of the American Government in urging China to resolve its differences with the Chinese Communists served only to strengthen the latter in their recalcitrance. He said that the Communist demands were equivalent to asking the Government to surrender unconditionally to a party known to be under the influence of a foreign power. He added that the United States should tell the Communists to settle their differences with and submit to the National Government. Ambassador Gauss stated that, being assured that he might speak frankly and openly, he was able to emphasize that the American Government was not interested in the cause of the Chinese Communists but that it was interested in seeing a solution of a Chinese internal problem which found Chinese armed forces facing each other rather than facing and fighting the Japanese and that this was of outstanding importance in that critical period of the war. He expressed his complete sympathy with the difficult task facing the Generalissimo in the solution of the Chinese Communist problem and added:

"We have not suggested that the Chinese Government should capitulate to Communist demands. Our interest is solely in the unification of China and the dissipation of the present critical situation. Our hope is that a peaceful solution can be found to this problem by the Chinese themselves."

The Ambassador reported that he made the personal observation that while the Generalissimo said that the Chinese Communists were not to be trusted, the Embassy had long heard the Chinese Communists complain equally that the Kuomintang Government could not be trusted. It seemed to him that an effort should be made to dissipate this mutual mistrust and that it was his personal opinion that a solution might be found in some measure which would bring the most competent representatives of the several groups and parties to participate in and share the responsibilities of the Government. He was of course aware of the Kuomintang contention that there could at that time be one-party government only. He indicated, however, that he would like to see the difficulty overcome. Even if it could not be overcome on a broad basis to give representation in the Government to minor parties, perhaps a limited solution might be found under which able representatives of the parties or special groups might be provided for, with these persons being invited to share in some form of responsible war council which planned and carried out plans to meet the serious



war crisis taking place in China. In conclusion the Ambassador said that in such sharing of responsibility perhaps there could be developed a disposition toward cooperation for unification of China. The Generalissimo commented that this suggestion might at least be worth studying.

In response to the Ambassador's report of this conversation, Secretary of State Hull informed Mr. Gauss that the President and he had given careful consideration to the report and agreed that a "positive, frank, and free approach to Chiang on the subject of governmental and related military conditions in China should be made at this time." The Secretary indicated that the Generalissimo's suggestion that the Chinese Communists should be told to settle their differences with the Government was similar to his previous suggestion to Vice President Wallace and that the general argument of the Generalissimo as set forth to the Ambassador showed a discouraging lack of progress in the thinking of the Generalissimo in view of his own professed desire to reach a settlement with the Chinese Communists and in view of dissident developments in other areas not under Chinese Communist influence. The Secretary then suggested that the Ambassador might tell the Generalissimo that if the latter would arrange a meeting the Ambassador would be prepared to speak to the Communist representative in Chungking along the same general lines as the Ambassador and the Vice President had spoken to him; that the Ambassador would point out to the Communist representative that unity in China in prosecuting the war and in preparing for the peace was urgently necessary; that a spirit of tolerance and good will—of give and take—was essential in achieving such unity; that Chinese of every shade of political thinking should cooperate now to defeat the Japanese; and that differences could be settled if the major objective of victory was kept firmly in mind. The Ambassador was requested to inform Chiang (1) that the President and the Secretary felt that Mr. Gauss' suggestion for a coalition council was deserving of careful consideration; (2) that they were concerned, not only regarding non-settlement with the Chinese Communists, but also with regard to reports of discontent and dissidence in other parts of the country among non-Communist Chinese; (3) that they were not interested in the Communists or other dissident elements as such, but were anxious that the Chinese people develop and utilize, under the leadership of a strong representative and tolerant government, the physical and spiritual resources at their command in carrying on the war and establishing a durable democratic peace.<sup>3</sup>

<sup>3</sup> See annex 46.



**PESSIMISM OF AMBASSADOR GAUSS**

Although Ambassador Gauss transmitted this message to Chiang Kai-shek, he doubted that the Generalissimo would take the necessary steps or was even capable of doing so. He was also pessimistic over the prospects for negotiation with the Communists in view of the deep suspicion on both sides and inability to recognize realities. He even questioned the Chinese desire to cooperate actively in the war against Japan. The reports from the Embassy during October and early November present a depressing picture of a deteriorating situation, characterized by internal squabbles and apathy.

The discouraging conclusions of Ambassador Gauss were further reinforced from a source other than the Embassy or the Consulates. Several Foreign Service officers, all specialists in the Far East, at the request of the United States Army, were attached to the staff of the Commanding General of the China-Burma-India (later China) Theater for liaison duties. These officers had a unique opportunity, through travel and contacts with American and Chinese Military authorities, to observe conditions and report their reactions. These reports were made available to American officials concerned. The memoranda of these officers were prepared on a wide range of subjects and during a period of over two years, from early 1943 to early 1945, when the end of the war with Japan was not yet recognized as imminent. They show the development of the following themes:

1. Russian intentions with respect to the Far East, including China, are aggressive.

2. The Chinese Communists have a background of subservience to the U. S. S. R., but new influences—principally nationalism—have come into play which are modifying their outlook.

3. The Chinese Communists have become the most dynamic force in China and are challenging the Kuomintang for control of the country.

4. The Kuomintang and National Government are disintegrating.

5. The rivalry between these two forces threatens to culminate in a civil war which (a) would hamper the conduct of the war against Japan, (b) would press the Communists back into the arms of the U. S. S. R. and (c) might well lead eventually to American Soviet involvement and conflict.

6. The Communists would inevitably win such a war because the foreign Powers, including the United States, which would support the Government, could not feasibly supply enough aid to compensate for the organic weaknesses of the Government.

7. In this unhappy dilemma, the United States should attempt to prevent the disaster of a civil war through adjustment of the new align-

ment of power in China by peaceful processes. The desirable means to this end is to encourage the reform and revitalization of the Kuo-mintang so that it may survive as a significant force in a coalition government. If this fails, we must limit our involvement with the Kuo-mintang and must commence some cooperation with the Communists, the force destined to control China, in an effort to influence them further into an independent position friendly to the United States. We are working against time because, if the U. S. S. R. enters the war against Japan and invades China before either of these alternatives succeeds, the Communists will be captured by the U. S. S. R. and become Soviet satellites.

8. A policy of this description would also—and this is a decisive consideration in the war against Japan—measurably aid our war effort.<sup>4</sup>

### THE MILITARY FACTOR

As serious as were the other factors which contributed to the general deterioration during 1944 the most crucial point certainly, and the one which loomed largest in official American thinking, was the disintegration of the military situation which threatened the collapse of the entire Chinese war effort. It was this military factor which most immediately concerned American officials. Signs of military disintegration appeared in the spring, assumed major proportions during the summer, and eventuated in disaster during the fall. On April 17 the Japanese launched an attack southward across the Yellow River which marked the beginning of their campaign to open the Peiping-Hankow Railroad. On May 18 Loyang in the Yellow River area was captured and the remnants of Tang En-po's troops were set upon by the local populace. With the capture of Kaifeng the entire Honan front collapsed.

On May 27 the Japanese opened the drive southward into Hunan Province across the Yangtze and along the Hankow-Canton Railroad. On June 6, Huan-Chiang was occupied and the important center of Changsha was flanked to the west. On June 18 Changsha was captured and ten days later Hengyang was surrounded, though it did not fall until August 8. This placed the Japanese forces in a position to mount an offensive against the strategic air base Kweilin. In mid-August the Japanese mounted a new offensive in the coastal province of Chekiang. This drive resulted in the capture of Lishui on August 28. In mid-September Japanese forces crossed from Hunan into Kwangsi Province.

During the ensuing weeks Japanese forces from the north and south-east converged on Kweilin, which fell on November 12. With this

<sup>4</sup> See annex 47.



development the entire East China front had collapsed and there was little reason to believe that the Japanese if they so elected would not have the capability of attacking Chungking and the vitally important American base at Kunming. The situation was further complicated by reverses on the Salween front in Burma. Increasingly it had become apparent that the Chinese war effort had largely ceased to be an effective factor in China and that to a disturbing extent the Chinese will to fight had vanished. The main Nationalist effort was being concentrated on containment of Communists in the north and in internal political squabbles in Chungking. It was only in Burma, where the Chinese troops were under the direct command of General Stilwell, that Chinese ground forces were making a distinct military contribution.

#### **PRESIDENT ROOSEVELT'S MESSAGES TO GENERALISSIMO CHIANG KAI-SHEK, JULY-AUGUST 1944**

It was particularly this rapidly disintegrating military situation in East China which gave the most serious concern to President Roosevelt. As he saw it the first step in the solution would be the appointment of an American general to the command of all Chinese armies. On July 7, 1944, the President sent the following message to the Generalissimo:

"The critical situation which now exists in my opinion calls for the delegation to one individual of the powers to coordinate all the Allied military resources in China, including the Communist forces. . . . I am promoting Stilwell to the rank of full General and I recommend for your most urgent consideration that you recall him from Burma and place him directly under you in the command of all Chinese and American forces, and that you charge him with the full responsibility and authority for the coordination and direction of the operations required to stem the tide of the enemy's forces. I feel that the case of China is so desperate that if radical and promptly applied remedies are not immediately effected, our common cause will suffer a disastrous setback."

The Generalissimo agreed to this proposal in principle but suggested that as a preliminary step a high ranking American official well acquainted with political as well as military matters and having the complete confidence of the President be sent to Chungking to discuss the problem. On July 15 the President replied as follows:

"I am very glad to learn that in principle you are in agreement with the proposal to place General Stilwell in absolute command under you of the Chinese troops without any hindrance. . . . I am searching for a personal representative with far sightedness and po-



litical ability to collaborate with you. . . In the meantime I again urge you to take all steps to pave the way for General Stilwell's assumption of command at the earliest possible moment."

The President followed up this message with another one of August 10:

"I have this proposal to make: That General Patrick J. Hurley . . . be designated by me as my personal representative with you. . . He should be of great service in adjusting relations between you and General Stilwell. . ."

The President also proposed that Mr. Donald Nelson accompany General Hurley to deal with lend-lease and other economic matters. The Generalissimo accepted the proposal.

On August 23 the President again urged on the Generalissimo the appointment of General Stilwell to the command of all Chinese Armies in the following message:

"I am glad that you find General Hurley and Mr. Nelson acceptable for the important mission they will perform for us. Now that my personal representatives to you have been decided upon, I think we should proceed immediately to take the positive steps demanded by the military situation. I urge that you take the necessary measures to place General Stilwell in command of the Chinese forces, under your direction, at the earliest possible date. . . . I feel certain, however, that between General Hurley and General Stilwell there will be an adequate comprehension of the political problems you face. I am urging action in the matter of Stilwell's appointment so strongly because I feel that, with further delay, it may be too late to avert a military catastrophe tragic both to China and to our allied plans for the early overthrow of Japan. . . . I do not think the forces to come under General Stilwell's command should be limited except by their availability to defend China and fight the Japanese. When the enemy is pressing us toward possible disaster, it appears unsound to reject the aid of anyone who will kill Japanese. . . . I feel sure that General Hurley will be highly useful in promoting relations which will facilitate General Stilwell's exercise of command and his understanding of the related political problems. . . ."

Despite his earlier agreement in principle, the Generalissimo had still failed to place General Stilwell in command and the relations between the two men became increasingly bad. By early September, the military picture had become so ominous that the President felt compelled to send still another message to the Generalissimo:

"After reading the last reports on the situation in China my Chiefs of Staff and I are convinced that you are faced in the near future with the disaster I have feared. . . . I have urged time and again in

recent months that you take drastic action to resist the disaster which has been moving closer to China and to you. Now, when you have not yet placed General Stilwell in command of all forces in China, we are faced with a loss of a critical area in East China with possible catastrophic consequences."

#### REPORTS BY GENERAL STILWELL

On September 22, General Stilwell reported to the Chief of Staff in Washington his estimate of the Generalissimo's actions:

"Chiang Kai-shek is following his usual policy. At first he readily agreed to the command arrangement and also by inference agreed to use the communist army under my command, then he began the delaying action, which still continues. He protests that there are many difficulties which have to be smoothed out and this takes time. Actually, he believes that our advance in the Pacific will be swift enough and effective enough to spare his further effort, and he would like to avoid the bitter pill of recognizing the communists and putting a foreigner in command of the army. . . ."

On September 26, General Stilwell again reported to the Chief of Staff as follows:

"Chiang Kai-shek has no intention of making further efforts to prosecute the war. Anyone who crowds him toward such action will be blocked or eliminated . . . Chiang Kai-shek believes he can go on milking the United States for money and munitions by using the old gag about quitting if he is not supported. He believes the war in the Pacific is nearly over, and that by delaying tactics, he can throw the entire burden on us. He has no intention of instituting any real democratic regime or of forming a united front with the communists. He himself is the main obstacle to the unification of China and her cooperation in a real effort against Japan . . . I am now convinced that, for the reasons stated, the United States will not get any real cooperation from China while Chiang Kai-shek is in power. I believe he will only continue his policy and delay, while grabbing for loans and postwar aid, for the purpose of maintaining his present position, based on one-party government, a reactionary policy, or the suppression of democratic ideas with the active aid of his gestapo."

Shortly before his departure from China, General Stilwell gave yet another estimate of the crisis involving himself to the Chief of Staff:

"It is not a choice between throwing me out or losing Chiang Kai-shek and possibly China. It is a case of losing China's potential effort if Chiang Kai-shek is allowed to make removals now. I believe that the solution to the problem lies in insisting on the acceptance of our



proposals yet at the same time giving the Generalissimo a boost in prestige which will permit him to give his agreement without loss of face or offense to the Chinese Nationalist spirit."

By this time it had become apparent to General Hurley that the relations between the Generalissimo and General Stilwell had reached a point where no kind of a third party intervention could possibly remedy the damage already done except by the removal of General Stilwell, and furthermore, that no progress could be made in other outstanding questions until a new American Supreme Commander had been appointed. President Roosevelt accepted this point of view and Major General Albert C. Wedemeyer was designated to replace General Stilwell. There was seemingly no real effort made subsequently to have General Wedemeyer named to command all Chinese armies. It should be remembered in this connection that by the end of the year it was apparent that the Japanese did not intend to push beyond Kweilin for the capture of Chungking, and furthermore that the serious military situation which had developed in Burma early in the summer had been considerably alleviated.

In his final report to the War Department, General Stilwell made the following comments in appraisal of the controversy in which he had been a principal figure:

"However, as the level of command rose, national policies and politics entered the picture with resulting deterioration in sincerity and in cooperation. With the one exception of the Chinese Army in India where General Stilwell had been given direct command of the forces, the Americans enjoyed no command functions in the Chinese Army. Elsewhere the Theater Commander lacked the right of 'order'. Consequently, having no overall control, he could neither form the strategy nor direct the tactics. Holding in general to a purely advisory role, the Americans were often regarded with a jaundiced look of suspicion. In some instances our honest efforts, and our impartial action demonstrated an altruistic motive which won the respect and trust of certain field commanders. This favorable reaction to our conduct did not always hold true in the Chungking Government. In high places we were generally regarded as interlopers of cunning demeanor distributing largesse, most of which failed to materialize.

"'Aid to China', once undertaken, should have been vigorously prosecuted. Fortified with a full knowledge of China's governmental venality, her economic chaos, her military weakness, a written agreement to a plan committing her to a vigorous prosecution of the war under American supervision and material assistance should have been signed before we tendered any aid.

"It became increasingly obvious that a more frank and vigorous foreign policy would have helped to gain China's whole-hearted cooper-



ation, and her acknowledgment that our cooperation depended upon determined action on her part. The genial, parental admonishments of our government had failed to persuade the head of China's Central Government to recognize his political opponents—not even as a concession to the United States who regarded such recognition as important to the war effort. Certain factors entered into the picture, illuminating the fallacy of political placation, vain promise, and shabby support of a vacillating policy which drained public funds into a futile transfusion.

"Japanese aggression imposed a temporary unity on the various elements in struggling to determine whether China would progress along democratic or authoritarian lines. Of these elements Chiang Kai-shek was the strongest, and public opinion compelled him to assume the symbol of national unified will.

"Faced with the Japanese offensive designed to disintegrate China and bring about its collapse, Chiang chose to abandon national unity and to steer a course seeking to dominate rather than to unify and lead. He sought to dominate because he had no appreciation of what genuine democracy means.

"The Kuomintang party, of which he is the leader, was once the expression of genuine nationalistic feeling, but is now an uncertain equilibrium of decadent, competing factions, with neither dynamic principles nor a popular base. Chiang controls by manipulating these functions with an adroit political sense. His seat is insecure. His reluctance to expand military strength, his preoccupation with the security of domestic supremacy, his suspicion of everyone around him, and his increasing emotional instability betrayed a realization of this. He became a hostage of the forces he manipulated.

"Nowhere does Clausewitz's dictum that war is only the continuation of politics by other methods apply with more force than it did in CBI. In handling such an uncertain situation as existed in that theater of war, the Americans would have done well to avoid committing themselves unalterably to Chiang, and adopted a more realistic attitude toward China itself. We could gain little by supporting the attitude of the Chiang regime. We could have gained much by exerting pressure on Chiang to cooperate and achieve national unity, and if he proved unable to do this, then in supporting those elements in China which gave promise of such development."<sup>4a</sup>

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<sup>4a</sup> The present treatment of the controversy surrounding General Stilwell does not purport to be a full and complete account of that crisis. Only that material has been used which would serve as background for the Mission of General Hurley. It is the understanding of the Department of State that the National Military Establishment is preparing a full history of World War II and that this period will be more fully treated therein.

It was primarily to prevent that which did finally happen that General Hurley was dispatched to China by President Roosevelt. Once that crisis had been resolved with the appointment of General Wedemeyer, General Hurley undertook to lend his good offices in other problems.

### GENERAL HURLEY'S INSTRUCTIONS

According to General Hurley's report to the Department of State his instructions from the White House dated August 18 were (1) to serve as personal representative of the President to Generalissimo Chiang Kai-shek; (2) to promote harmonious relations between Chiang and General Joseph Stilwell and to facilitate the latter's exercise of command over the Chinese armies placed under his direction; (3) to perform certain additional duties respecting military supplies; and (4) to maintain intimate contact with Ambassador Gauss. A few months later, after his appointment as Ambassador, General Hurley outlined his understanding of his mission and of United States policy in China in the following terms: "(1) To prevent the collapse of the National Government, (2) to sustain Chiang Kai-shek as President of the Republic and Generalissimo of the Armies, (3) to harmonize relations between the Generalissimo and the American Commander, (4) to promote production of war supplies in China and prevent economic collapse, and (5) to unify all the military forces in China for the purpose of defeating Japan."

### GENERAL HURLEY'S TALK WITH MR. MOLOTOV

In company with Mr. Donald Nelson, chairman of the War Production Board, and a Special Representative of President Roosevelt, General Hurley had flown to Chungking by way of Moscow, where they had discussed the Chinese situation with Foreign Minister Molotov. According to Mr. Nelson's report of this conversation, he explained that his main business in China concerned economic matters and that General Hurley's concerned military matters; that Chinese cooperation in the war was of "vital importance"; and that to achieve this the United States Government must support Generalissimo Chiang and effect complete unity in China. In response to Mr. Nelson's request for Soviet opinion on this subject, Mr. Molotov replied that it was difficult to judge the Chinese situation from Washington or Moscow but that he would be willing to express some off-the-record thoughts. Mr. Molotov's remarks were summarized in the report as follows:

"Molotov then talked at length on the Generalissimo's imprisonment at Sian in 1936 and said that relations between China and the



Soviet Union were tense at that time. However, he said that the Soviet Government had turned its back on the Chinese revolutionary groups led by Chang Hsueh-liang and Wang Ching-wei which included many Communists and which looked to the Soviet Union for sympathy and aid and had issued a statement to the effect that Japanese provocation had been the cause of the uprising in Sian and other events in China. Due to the political and moral support of the Soviet government, Chiang had been allowed to return to the seat of his government and the revolutionary leader (Chang Hsueh-liang) had been arrested. The Soviets had hoped as a result of their action that Soviet-Chinese relations would change for the better. However, the Chinese had shown little interest in strengthening relations which had on the contrary deteriorated in recent years.

"Although he said that the Soviet government had unjustifiably been held responsible for various happenings in China during recent years, Molotov stressed that it would bear no responsibility for internal affairs or developments in China. Molotov then spoke of the very impoverished conditions of the people in parts of China, some of whom called themselves Communists but were related to Communism in no way at all. It was merely a way of expressing dissatisfaction with their economic condition and they would forget this political inclination when their economic condition improved. The Soviet government should not be associated with these 'communist elements' nor could it in any way be blamed for this situation. The solution of the entire situation was to make the Chinese government work in the common interest and cope with the tasks before it and to make life more normal in China. Molotov said in conclusion that the Soviets would be glad if the United States aided the Chinese in unifying their country, in improving their military and economic condition and in choosing for this task their best people. . . . Molotov's satisfaction at being consulted was clearly indicated. He gave little new information but he confirmed statements made previously that his government would be glad to see the United States taking the lead economically, politically, and militarily in Chinese affairs. Molotov made it clear also that until Chiang Kai-shek tried by changes in his policies to improve Sino-Soviet relations, the Soviet government did not intend to take any interest in Chinese governmental affairs."

The importance of this conversation is apparent from the frequent references in General Hurley's subsequent reports to Molotov's expression of Soviet policy toward China.



## II. THE EFFORT AT MEDIATION

### INITIAL STEPS

Upon arriving at Chungking in September, General Hurley came to the conclusion that the success of his mission "to unify all the military forces in China for the purpose of defeating Japan" was dependent on the negotiations already under way for the unification of Chinese military forces. Accordingly, shortly after his arrival he undertook active measures of mediation between the Chinese National Government and the Chinese Communist Party.

In December 1944 General Hurley commented as follows regarding his early efforts at reconciliation :

"At the time I came here Chiang Kai-shek believed that the Communist Party in China was an instrument of the Soviet Government in Russia. He is now convinced that the Russian Government does not recognize the Chinese Communist Party as Communist at all and that (1) Russia is not supporting the Communist Party in China, (2) Russia does not want dissensions or civil war in China, and (3) Russia desires more harmonious relations with China.

"These facts have gone far toward convincing Chiang Kai-shek that the Communist Party in China is not an agent of the Soviet Government. He now feels that he can reach a settlement with the Communist Party as a Chinese political party without foreign entanglements. When I first arrived, it was thought that civil war after the close of the present war or perhaps before that time was inevitable. Chiang Kai-shek is now convinced that by agreement with the Communist Party of China he can (1) unite the military forces of China against Japan, and (2) avoid civil strife in China."

With respect to specific steps taken by him, General Hurley reported in December 1944 that with the consent, advice and direction of the Generalissimo and members of his Cabinet and on the invitation of leaders of the Communist Party, he had begun discussions with the Communist Party and Communist military leaders for the purpose of effecting an agreement to regroup, coordinate and unite the military forces of China for the defeat of Japan. He continued: "The defeat of Japan is, of course, the primary objective, but we should all understand that if an agreement is not reached between the two great military establishments of China, civil war will in all probability ensue."

**THE FIVE-POINT DRAFT AGREEMENT, NOVEMBER 10, 1944**

Following discussions with Chinese Government and Chinese Communist representatives in Chungking, General Hurley on November 7, 1944, flew to Yen-an for a two-day conference with Mao Tse-tung, the Chairman of the Central Executive Committee of the Chinese Communist Party. The Communist leaders were impressed by the fact that General Hurley had taken the initiative in making this flight and cordial relations were established at once. As a result of these discussions there was evolved at Yen-an a five-point draft, entitled "Agreement Between the National Government of China, the Kuomintang of China and the Communist Party of China," which was signed by Mao Tse-tung as Chairman of the Central Executive Committee of the Chinese Communist Party on November 10, 1944, and by General Hurley as a witness. This important agreement read as follows:

"(1) The Government of China, the Kuomintang of China and the Communist Party of China will work together for the unification of all military forces in China for the immediate defeat of Japan and the reconstruction of China.

"(2) The present National Government is to be reorganized into a coalition National Government embracing representatives of all anti-Japanese parties and non-partisan political bodies. A new democratic policy providing for reform in military, political, economic and cultural affairs shall be promulgated and made effective. At the same time the National Military Council is to be reorganized into the United National Military Council consisting of representatives of all anti-Japanese armies.

"(3) The coalition National Government will support the principles of Sun Yat-sen for the establishment in China of a government of the people, for the people and by the people. The coalition National Government will pursue policies designed to promote progress and democracy and to establish justice, freedom of conscience, freedom of press, freedom of speech, freedom of assembly and association, the right to petition the government for the redress of grievances, the right of writ of habeas corpus and the right of residence. The coalition National Government will also pursue policies intended to make effective the two rights defined as freedom from fear and freedom from want.

"(4) All anti-Japanese forces will observe and carry out the orders of the coalition National Government and its United National Military Council and will be recognized by the Government and the Military Council. The supplies acquired from foreign powers will be equitably distributed.



"(5) The coalition National Government of China recognizes the legality of the Kuomintang of China, the Chinese Communist Party and all anti-Japanese parties."

### THE THREE-POINT PLAN

General Hurley felt that this Five-Point Draft Agreement, which he promptly submitted to the National Government, offered a practical plan for settlement with the Communists. National Government leaders, however, said that the Communist plan was not acceptable. The National Government submitted as counter-proposal a Three-Point Agreement reading as follows:

"(1) The National Government, desirous of securing effective unification and concentration of all military forces in China for the purpose of accomplishing the speedy defeat of Japan, and looking forward to the post-war reconstruction of China, agrees to incorporate, after reorganization, the Chinese Communist forces in the National Army who will then receive equal treatment as the other units in respect of pay, allowance, munitions and other supplies, and to give recognition to the Chinese Communist Party as a legal party.

"(2) The Communist Party undertakes to give their full support to the National Government in the prosecution of the war of resistance, and in the post-war reconstruction, and give over control of all their troops to the National Government through the National Military Council. The National Government will designate some high ranking officers from among the Communist forces to membership in the National Military Council.

"(3) The aim of the National Government to which the Communist Party subscribes is to carry out the Three People's Principles of Dr. Sun Yat-sen for the establishment in China of a government of the people, for the people and by the people and it will pursue policies designed to promote the progress and development of democratic processes in government.

"In accordance with the provisions of the *Program of Armed Resistance and National Reconstruction*, freedom of speech, freedom of the press, freedom of assembly and association and other civil liberties are hereby guaranteed, subject only to the specific needs of security in the effective prosecution of the war against Japan."

### REPLY OF THE CHINESE COMMUNISTS

This proposal was handed to General Chou En-lai, the Communist representative in Chungking, on November 22 and was taken by him to Yen-an early in December. Following his arrival in Yen-an, Gen-



eral Chou wrote General Hurley a letter, which the latter reported as follows:

"The refusal of the Generalissimo and the National Government of our minimum five point proposal, clearly showing disagreement with our suggestions for a coalition government and united military council and the submission of the three point counter-proposal, preclude the possibility of my returning to Chungking for further negotiations. We find it impossible to see any fundamental common basis in these new proposals. We feel that publication of our five-point proposal is now called for in order to inform the public and to bring out the changing attitude of the Government.

"Despite the fact that President Chiang has so limited the question of military cooperation between us that no easy solution can be achieved, we completely desire to continue to discuss with you and General Wedemeyer<sup>5</sup> the concrete problems of our future military cooperation and to continue the closest contact with the United States Army Observers Section in Yen-an. Chairman Mao Tse-tung has especially asked me to express his deep thanks and appreciation for your sympathy and energetic efforts on behalf of unity in China."

General Hurley reported that he was conferring daily with the Generalissimo and members of his cabinet "endeavoring to liberalize the counter-proposal. We are having some success. The Generalissimo states that he is anxious that the military forces of the Communist Party in China and those of the National Government be united to drive the invaders from China. The Communist leaders declare this is also their objective. I have persuaded Chiang that in order to unite the military forces in China and prevent civil conflict it will be necessary for him and the Kuomintang and the National Government to make liberal political concessions to the Communist Party and to give them adequate representation in the National Government."

General Hurley, who reported that all his communications with Yen-an without exception were sent with the full knowledge and consent of the high officials of the National Government, wrote Chou En-lai that it was his understanding that the five-point offer of settlement proposed by the Chinese Communists was to form the basis of discussion and was not a "take it or leave it" proposition; that the Communist Party was willing to consider suggestions for amendments by the National Government and that the three-point offer in response to the Communist proposal was not the final word of the National

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<sup>5</sup> General Wedemeyer had replaced General Stilwell in November as commander of United States forces in the China Theater.

Government. He regarded both instruments as steps in the negotiations and it was his understanding that publication of the five-point Communist proposal would be withheld while negotiations were pending. He did not believe that negotiations had been terminated unless General Chou so wished them, and he knew that the National Government was disposed to make every effort to unify China. He felt it would be a great tragedy if the door were closed at this critical hour to further discussions.

General Chou replied to General Hurley on December 16, 1944, stating that the unexpected and flat rejection by the Kuomintang of the Communist five-point proposal caused a deadlock in the negotiations and rendered his return to Chungking useless. He indicated that this could not be construed as Communist discontent with the United States and that he agreed with the advice of General Hurley against the publication of the five points, but insisted that they should be made public when the appropriate time came. The one fundamental difficulty with respect to these negotiations, he felt, was the unwillingness of the Kuomintang to forsake one-party rule and accept the proposal for a "democratic coalition government."

General Hurley replied to General Chou En-lai in a telegram on December 21, 1944, stating his belief that chances for success along the general lines of the Communist proposals would be "brighter than ever before if he would come again to Chungking." On December 24, Mao Tse-tung telegraphed General Hurley stating that General Chou was occupied with "important conference preparations" which made his departure from Yen-an difficult. Mao stated that the National Government had not shown sufficient sincerity to warrant continuing negotiations on the basis of the five-point proposal and he suggested a conference in Yen-an. On December 28, General Chou wrote General Hurley that the Communists would not be willing to continue abstract discussions on the question of accepting their proposal for a "democratic coalition government." He proposed instead the following four additional points which he requested the Ambassador to communicate to the Chinese Government authorities "to see whether they are determined to realize democracy and unity": (1) The release of all political prisoners; (2) the withdrawal of Kuomintang forces surrounding the border region and those attacking the new Fourth Army and the South China Anti-Communist column; (3) the abolition of all oppressive regulations restricting the people's freedom; and (4) cessation of all secret service activity.

Ambassador Hurley replied in a letter dated January 7, 1945, addressed to Mao Tse-tung and Chou En-lai, stating that the additional four points outlined in the latter's letter of December 28 constituted



a departure from "our original agreed procedure which was to arrive at an agreement on general principles before discussing specific details." The Ambassador also stated that he was convinced that the National Government was sincerely desirous of making such concessions as would make a settlement possible, but that such matters could not be discussed by telegram or letter. He suggested, after obtaining the approval of the National Government, that he make a brief visit to Yen-an, accompanied by Dr. T. V. Soong, Dr. Wang Shih-chieh, and General Chang Chih-chung, to discuss matters in person and that Mao Tse-tung and Chou En-lai might return with the foregoing group to Chungking if agreement in principle were reached as a result of the discussions in Yen-an.

### THE CONFERENCE AT CHUNGKING

In a reply to this proposal, on January 11, Mao Tse-tung stated that the proposal for a conference between both parties at Yen-an was greatly appreciated but that he felt that nothing could be achieved thereby. He proposed that a preparatory conference be called in Chungking for the purpose of convening a National Affairs Conference; that the preparatory conference include Kuomintang, Communist and Democratic League delegates; that the proceedings of the conference be made public; and that "the delegates have equal standing and freedom to travel." He added that if the National Government found these proposals acceptable General Chou would proceed to Chungking for discussions. On January 20, the Ambassador wrote Mao Tse-tung with the knowledge and approval of the Generalissimo outlining certain changes that were contemplated in the National Government. General Hurley added "it may well be that this measure together with the other measures that have been offered by the National Government may not be sufficient to satisfy the Chinese Communists, but I think it would be a great pity if such far-reaching government proposals were rejected out of hand without due consideration. As a friend of China I suggest you send General Chou En-lai or any other representative you may select to Chungking for a brief visit to talk matters over with the Government. It need not take long; if he is busy two or three days would be sufficient." On January 23, the Ambassador was informed by Mao Tse-tung in reply that General Chou was being sent to Chungking to negotiate with the Government.

### THE NATIONAL GOVERNMENT'S PROPOSAL

Following the arrival of General Chou in Chungking on January 24 a series of conferences were held in which Dr. T. V. Soong, Acting President of the Executive Yuan and Minister for Foreign Affairs,



Dr. Wang Shih-chieh, Minister of Information, and General Chang Chih-chung, Director of Political Training of the National Ministries Council, represented the National Government. General Chou represented the Chinese Communist Party and General Hurley attended on the invitation of both parties. Dr. Wang Shih-chieh stated that the National Government was prepared to take the following measures, in addition to its previous three-point proposal:

"1. The Government will set up, in the Executive Yuan, an organ whose nature resembles a war cabinet, with a membership of from seven to nine men, to act as the policy making body of the Executive Yuan. The Chinese Communist Party and other parties will be given representation on this organ.

"2. The Generalissimo of the National Military Council will appoint two Chinese Army officers (of whom one will be an officer of the Chinese Communist troops) and one American Army officer to make recommendations regarding the reorganization, equipment and supplies of Chinese Communist troops, for approval by the Generalissimo of the National Military Council.

"3. The Generalissimo of the National Military Council will appoint one American Army officer as the immediate commander of Chinese Communist troops for the duration of the war against Japan. The said immediate commander of Chinese Communist troops shall be responsible to the Generalissimo of the National Military Council. He shall insure the observance and enforcement of all government orders, military or nonmilitary, in the area under his control."

### THE COMMUNIST PARTY'S REACTION

Ambassador Hurley stated that he had no authority from his Government to agree that an American Army officer would participate as indicated in the National Government's proposal. General Chou objected that Dr. Wang was not yet fully aware of the fundamental aims of the Communists. Despite the Generalissimo's New Year's speech, in which he had spoken of the necessity for adopting a constitution at an early date and returning the control of the Government to the people, it appeared to General Chou that Dr. Wang's proposal represented merely concessions made by the Kuomintang while that party still retained control of the Government. General Chou repeated the position which he and Mao Tse-tung had expressed to General Hurley when they had negotiated the original Five-Point Agreement, namely, that the Communist Party would not submit the command of its troops to the Kuomintang Party although it was prepared to turn over command of its troops to the National Government when the one-party rule of the Kuomintang had been abolished and

the Government had been reconstituted as a coalition administration representing all parties. He would favor at such time establishing a military commission to reorganize the Chinese armed forces, but he would not agree that such a commission should be permitted to reorganize only Communist troops. The entire Chinese military establishment should be reorganized and he would be glad to see an American serve on such a commission.

### CONFERENCE WITH THE GENERALISSIMO

This Communist Party position was made known to Generalissimo Chiang at a conference attended by Ambassador Hurley, Dr. T. V. Soong, and Dr. Wang Shih-chieh. The Ambassador reported that Chiang pointed out that he was calling a meeting for May 4, in keeping with the will of Dr. Sun Yat-sen, for the purpose of taking steps to draft a constitution, to pass the control of the National Government to the people, and to abolish the one-party rule of the Kuomintang. The Generalissimo made the definite statement that in his opinion all the political parties in China including his own constituted less than 2 percent of the Chinese people. He believed that it would not be for the best interest of China to turn the control of the Government over to any political group or to a coalition of political groups. He felt it to be his duty to have a democratic constitution for China adopted by a convention in which all the people of China, and not alone the organized political minorities, would participate. He expressed his belief that the Chinese Communist Party was not in fact a democratic party and that it professed to be democratic only for the purpose of trying to achieve control of the administration of the National Government. The Ambassador suggested to the Generalissimo that he was losing valuable time and again said that he could afford to make political concessions and shorten the period of transition in order to obtain control of the Communist forces. Ambassador Hurley stated that the Generalissimo's most important objective at the moment should be unification of the Communist military forces with those of the National Government. This would be the first step toward China's major objectives, namely: (1) unification of all military forces to defeat Japan; (2) unification of China to prevent outside forces from keeping China divided against itself; (3) prevention of civil war in China and (4) a united, free, democratic China under a democratic constitution adopted by a convention of the Chinese people.

After extended discussions Dr. Wang Shih-chieh and General Chou En-lai were appointed to form a committee to draw up a proposal



which "would make action possible." On February 3 Dr. Wang Shih-chieh presented the following draft to the Ambassador:

"In order to intensify our war effort against the enemy and strengthen our national unity, it is agreed that the National Government should invite the representatives of the Kuomintang and other parties, and some non-partisan leaders, to a consultative meeting. This meeting is to be named the Political Consultation Conference, and its membership is not to exceed —— persons.

"The function of this conference is to consider: (a) steps to be taken in winding up the period of political tutelage and establishing constitutional government, (b) the common political program to be followed in the future and the unification of armed forces, and (c) the form in which members of parties outside the Kuomintang will take part in the National Government.

"If the said Political Consultation Conference succeeds in reaching a unanimous conclusion, it will be submitted to the National Government for consideration and execution. During the Political Consultation Conference, all parties should refrain from recriminations of any kind."

General Chou En-lai informed the Ambassador that he was sending a copy of the draft by telegram to Yen-an and he added that for the first time he felt that a basis for cooperation was being reached. General Hurley reported that he discussed the draft with Generalissimo Chiang Kai-shek on February 4. In reporting this discussion the Ambassador stated that the Generalissimo said he had consented to the proposal but he felt that the Communists had obtained what they had been endeavoring to obtain all along. Ambassador Hurley told him "very frankly" that the only instrument heretofore with which he could have worked with the Communists was the five-point agreement; that if he had revised that agreement at the time it was offered, the Communists would probably have accepted reasonable revision; and that it was still the only document in which there was a signed agreement by the Communists to submit control of their armed forces to the National Government.

#### SUMMARY OF KUOMINTANG VIEWS

In the middle of February 1945 the Ambassador summarized the views of the representatives of the Chinese Government during these discussions. According to his report, the Government representatives stated that the real purpose of the Chinese Communist Party was not the abolition of the one-party rule by the Kuomintang but rather, as indicated by all the maneuvers made by the Chinese Com-



munists, to overthrow control by the Kuomintang Party and obtain a one-party rule of China by the Chinese Communist Party. The Kuomintang desired to have a democratic constitution adopted and to return the government to the people. It would not surrender its authority in these troublous times to a coterie of parties in a so-called coalition government. It would appoint a bi-partisan war cabinet with policy-making powers but would retain control of the Government until control was returned to the people under a democratic constitution. The Generalissimo stated that he wanted the Communists to accept the latest offer of the Government, which was made in good faith and with every possible guarantee that their armed forces would not be destroyed or discriminated against. He said that the Chinese Communists aimed to effect a *coup* by which they would take control of the National Government and convert it into a one-party Communist Government similar to that of Russia. He felt that the Chinese Communist Party's hopes for success were based on the fact that they believed that if Russia entered the war in Asia it would support the Chinese Communists against the National Government. Chiang pointed out that notwithstanding all this, the Government had decided to undertake this bold measure for returning rule to the people in the midst of war; that now the Government invited the Communists and other Party representatives, with complete freedom of travel, to meet on an equal status for the purpose of intensifying efforts against the enemy and strengthening national unity and to provide a program for completing the period of tutelage and establishing a democratic constitutional government.

#### ADJOURNMENT OF THE CONFERENCE

In concluding his report on these negotiations, General Hurley stated: "I am convinced that our Government was right in its decision to support the National Government of China and the leadership of Chiang Kai-shek. I have not agreed to any principles or supported any method that in my opinion would weaken the National Government or the leadership of Chiang Kai-shek. I have, however, on many occasions, advised the Generalissimo and Soong that China must furnish her own leadership, make her own decisions and be responsible for her own domestic and international policies."

General Chou En-lai left Chungking for Yenan on February 16. Prior to his departure he informed the Ambassador that he believed that his Party would agree to the Political Consultation Conference provided for in the proposal of the Chinese Government. He expressed the opinion, however, that one-party rule should be immediately ended and that a coalition administration should be instituted

to guide China in forming a democratic government based upon a democratic constitution adopted by a people's convention. General Hurley departed from Chungking on February 19, 1945, for consultation in Washington.

### THE GENERALISSIMO'S STATEMENT OF MARCH 1, 1945

Generalissimo Chiang, in a public address on March 1, 1945 before the Commission for the Inauguration of Constitutional Government, reaffirmed his conviction that the solution of the Communist question must be through political means and outlined the steps which the Government had taken looking toward such solution. He stated:

"I have long held the conviction that the solution of the Communist question must be through political means. The Government has labored to make the settlement a political one. As the public is not well informed on our recent efforts to reach a settlement with the Communists, time has come for me to clarify the atmosphere.

"As you know, negotiations with the Communists have been a perennial problem for many years. It has been our unvarying experience that no sooner is a demand met than fresh ones are raised. The latest demand of the Communists is that the Government should forthwith liquidate the Kuomintang rule, and surrender all power to a coalition of various parties. The position of the Government is that it is ready to admit other parties, including the Communists as well as non-partisan leaders, to participate in the Government, without, however, relinquishment by the Kuomintang of its power of ultimate decision and final responsibility until the convocation of the People's Congress. We have even offered to include the Communists and other parties in an organ to be established along the lines of what is known abroad as a 'war cabinet'. To go beyond this and to yield to the Communist demand would not only place the Government in open contravention of the Political Program of Dr. Sun Yat-sen, but also create insurmountable practical difficulties for the country.

"The Government has not hesitated to meet the issues raised by the Communists squarely. During his recent visit the Communist representative, Chou En-lai, was told that the Government would be prepared to set up in the Executive Yuan a policy-making body to be known as the Wartime Political Council, to which other parties, including the Communists, would have representation. In addition, he was told that the Government would be ready to appoint a Commission of three officers to make plans for the incorporation of the Communist forces in the National Army, composed of one Government officer, one Communist and one American, provided that the United States Government would agree to allow an American officer to serve. If the



United States Government could not agree, some other means of guaranteeing the safety of the Communist forces, and non-discrimination in their treatment, could doubtless be evolved.

"No one mindful of the future of our four hundred and fifty million people and conscious of standing at the bar of history would wish to plunge the country into a civil war. The Government has shown its readiness and is always ready to confer with the Communists to bring about a real and lasting settlement with them.

"I have explained the Government's position on the Communist problem at length, because today that is the main problem to unity and constitutional government.

"I now turn to the concrete measures which the Government proposes to take to realize constitutional government which I wish to announce briefly:

"1. The People's Congress to inaugurate constitutional government will be convened on November 12 this year (the 80th birthday of Dr. Sun Yat-sen) subject to the approval by the Kuomintang National Congress which is due to meet in May.

"2. Upon the inauguration of constitutional government, all political parties will have legal status and enjoy equality. (The Government has offered to give legal recognition to the Communist Party as soon as the latter agrees to incorporate its army and local administration in the National Government. The offer still stands.)

"3. The next session of the People's Political Council with a larger membership as well as more extensive powers will soon be sitting. The Government will consider with the council the measures in regard to the convening of the People's Congress and all related matters."<sup>6</sup>

#### THE COMMUNIST PARTY'S REPLY, MARCH 9, 1945

On March 12, 1945, the American Embassy at Chungking was requested to transmit the following letter,<sup>7</sup> dated March 9 from General Chou to General Hurley, who was then in Washington:

"Your kind message of 20 February has been received.

"Under instructions from the Central Committee of my party and from Chairman Mao Tse-tung I have sent a letter on the 9th of March to Dr. Wang Shih-chieh, representative of the National Government, containing the following two points of which I especially would like to inform you about:

<sup>6</sup> For complete text, see *China Handbook, 1937-1945*, p. 73.

<sup>7</sup> This message and a preceding one of Feb. 18 from General Chou to General Hurley concern the question of Chinese Communist participation on the Chinese delegation to the San Francisco Conference. For texts of Feb. 18 message and reply by General Hurley, see annexes 48 (a) and 48 (b).



"1. The Central Committee of my party was originally planning to draft our proposals in answer to Dr. Wang Shih-chieh's proposal of calling a political consultation conference, in order to facilitate the discussions, and so it was all the more unexpected that President Chiang Kai-shek on March 1, should have made a public statement opposing the abolition of one-party rule, the convening of an inter-party conference and also the establishment of a coalition government, announcing instead the one-party Kuomintang government is preparing to call on November 12 of this year that one-party controlled, deceitful, China splitting, so-called National Congress, based on conditions to which the people have no freedom, in which political parties and groups have no legal status, and in which large areas of the country have been lost making it impossible for the majority of the people to take part.

"This clearly demonstrates that the Kuomintang government is obstinately insisting on having their own way alone, thus on the one hand showing that they have not the least sincerity of wanting to carry out democratic reforms, and on the other it leaves no basis on which negotiations between the Communist Party and the other democratic parties and the Kuomintang government can be continued in these circumstances. The Central Committee of my party considers that there is no longer the need to draft proposals in answer to Wang Shih-chieh.

"2. The Central Committee of my party and Chairman Mao Tse-tung are decidedly of the opinion that if Chinese delegates are to represent the common will of the whole Chinese people at the San Francisco Conference in April, then they must consist of representatives of the Chinese Kuomintang, the Chinese Communist Party and the Chinese Democratic League; and definitely there should not be only Kuomintang government delegates attending the meeting. America and England both have announced that their delegations will consist of representatives from all important political parties while your Honorable President has made known that the American delegation will consist of an equal number from both the Democratic and Republican parties; but since the Chinese situation is so lacking in unity, then, if the Kuomintang should try to monopolize the entire delegation, this would be not only unjust or unreasonable, but it would show that their standpoint is for wanting to split China. My party has already officially put forth the above demands to the Kuomintang government and suggested that Chou En-lai, Tung Pi-wu and Chin Pang-hsien, three members of our Central Committee, join the Chinese delegation. If this is not accepted by the Kuomintang government, then my party will determinedly oppose the Kuomin-

tang splitting measure and reserve the right of expression on all opinions and the actions of the monopolized delegation of the Kuomintang government at the conference of the United Nations at San Francisco.

"Please inform your Honorable President of the above two proposals as soon as possible and also express my deep appreciation for his interest on behalf of Chinese unity. I extend to you my deepest personal regards."

In view of this sharp reaction by the Chinese Communist Party, active negotiations between the Communists and the National Government leaders looking toward the unification of China were broken off at this time and were not resumed until the following summer. In commenting on these negotiations, Ambassador Hurley stated:

"I pause to observe that in this dreary controversial chapter, two fundamental facts are emerging: (1) the Communists are not in fact Communists, they are striving for democratic principles; and (2) the one party, one man personal Government of the Kuomintang is not in fact fascist, it is striving for democratic principles. Both the Communists and the Kuomintang have a long way to go, but if we know the way, if we are clear minded, tolerant and patient, we can be helpful. But it is most difficult to be patient at a time when the unified military forces of China are so desperately needed in our war effort."

### III. THE PROBLEM OF MILITARY ASSISTANCE

#### AMBASSADOR HURLEY'S RECOMMENDATION AGAINST AMERICAN AID TO THE CHINESE COMMUNISTS

Meanwhile, another problem had arisen shortly before the Ambassador's departure for Washington. This was the problem of supplying American arms and equipment to groups in China other than the National Government. The Ambassador recommended that "all such requests, no matter how reasonable they may seem to be, be universally refused until or unless they receive the sanction of the National Government and of the American Government." It was his "steadfast position that all armed warlords, armed partisans and the armed forces of the Chinese Communists must without exception submit to the control of the National Government before China can in fact have a unified military force or unified government." The Ambassador followed this policy in connection with a request from General Chu Teh in January 1945 that the United States Army lend the Communist forces 20 million dollars in United States currency for use in procuring the defection of officers and men of the Chinese puppet government together with their arms and for use in encouraging sabotage



and demolition work by puppet troops behind the Japanese lines. General Chu informed General Wedemeyer that his forces would assume full responsibility for repayment of the loan following victory over Japan and in support of his request submitted a document claiming that during 1944 Communist forces won over 34,167 Chinese puppet troops with 20,850 rifles, sidearms, mortars, field pieces, etc. The document estimated that with American financial help puppet defections during 1945 could be increased to 90,000 men. In commenting on this proposal the Ambassador stated:

"While financial assistance of the type requested by General Chu might in the end prove to be more economical than importing a similar quantity of arms and ammunition from the United States for use against Japan, I am of the firm opinion that such help would be identical to supplying arms to the Communist armed Party and would, therefore, be a dangerous precedent. The established policy of the United States to prevent the collapse of the National Government and to sustain Chiang Kai-shek as president of the Government and Generalissimo of the Armies would be defeated by acceptance of the Communist Party's plan or by granting the lend-lease and monetary assistance requested by General Chu Teh."

### THE AMERICAN CHARGÉ'S RECOMMENDATIONS

Shortly after the arrival of General Hurley in Washington for consultation the question of supplying arms and military equipment to the Chinese Communist forces was raised by the American Chargé d'Affaires at Chungking, George Atcheson, in the communication to the Department of State paraphrased below. The Chargé had reported on February 26 that since the conclusion of negotiations with the Communists there had been a growing impression among observers there that for various reasons the Generalissimo had greatly stiffened his attitude toward the Communists and toward the continuing faint hopes held by some liberals that a settlement might still eventually be possible.

It appears that the situation in China is developing in some ways which are neither conducive to the future unity and peace of China nor to the effective prosecution of the war.

A necessary initial step in handling the problem was the recent American endeavor to assist compromise between the factions in China through diplomatic and persuasive means. Not only was unity correctly regarded as the essence of China's most effective conduct of the war, but also of the speedy, peaceful emergence of a China which would be united, democratic, and strong.



However, the rapid development of United States Army plans for rebuilding the armies of Chiang Kai-shek, the increase of additional aid such as that of the War Production Board, the cessation of Japanese offensives, the opening of the road into China, the expectation that the Central Government will participate at San Francisco in making important decisions, the conviction that we are determined upon definite support and strengthening of the Central Government alone and as the sole possible channel for assistance to other groups, the foregoing circumstances have combined to increase Chiang Kai-shek's feeling of strength greatly. They have resulted in lack of willingness to make any compromise and unrealistic optimism on the part of Chiang Kai-shek.

Among other things, this attitude is reflected in hopes of an early settlement with the Soviet Union without settlement of the Communist problem, when nothing was ultimately offered except an advisory inter-party committee without place or power in the Government, and in recent appointments of a military-political character, placing strong anti-Communists in strategic war areas, and naming reactionaries to high administrative posts, such as General Ho Kuo Kuang, previously Commander-in-Chief of Gendarmerie, as Chairman of Formosa; and Admiral Chan Chak, Tai Li subordinate, as mayor of Canton.

On their part, the Communists have arrived at the conclusion that we are definitely committed to the support of Chiang Kai-shek alone, and that Chiang's hand will not be forced by us so that we may be able to assist or cooperate with the Communists. Consequently, in what is regarded by them as self-protection, they are adopting the course of action which was forecast in statements made by Communist leaders last summer in the event they were still excluded from consideration, of increasing their forces actively and expanding their areas to the south aggressively, reaching southeast China, regardless of nominal control by the Kuomintang. We previously reported to the Department extensive movements and conflicts with forces of the Central Government already occurring.

It is the intention of the Communists, in seizing time by the forelock, to take advantage of East China's isolation by the capture of the Canton-Hankow Railway by Japan to render themselves as nearly invincible as they can before the new armies of Chiang Kai-shek, which are being formed in Yunnan at the present time, are prepared; and to present to us the dilemma of refusing or accepting their assistance if our forces land at any point on the coast of China. There is now talk by Communists close to the leaders of the need of seeking Soviet aid. Active consideration is being given to the crea-

tion of a unified council of their various independent guerrilla governments by the party itself, which is broadcasting demands for Communist and other non-Kuomintang representations at San Francisco.

Despite the fact that our actions in our refusal to aid or deal with any group other than the Central Government have been diplomatically correct, and our intentions have been good, the conclusion appears clear that if this situation continues, and if our analysis of it is correct, the probable outbreak of disastrous civil conflict will be accelerated and chaos in China will be inevitable.

It is apparent that even for the present this situation, wherein we are precluded from cooperating with the strategically situated, large and aggressive armies and organized population of the Communist areas, and also with the forces like the Li Chi-shen-Tsai Ting-k'ai group in the southeast, is, from a military standpoint, hampering and unsatisfactory. From a long-range viewpoint, as set forth above, the situation is also dangerous to American interests.

If the situation is not checked, it is likely to develop with increasing acceleration, as the tempo of the war in China and the entire Far East is raised, and the inevitable resolution of the internal conflict in China becomes more imperative. It will be dangerous to permit matters to drift; the time is short.

In the event the high military authorities of the United States agree that some cooperation is desirable or necessary with the Communists and with other groups who have proved that they are willing and in a position to fight Japan, it is our belief that the paramount and immediate consideration of military necessity should be made the basis for a further step in the policy of the United States. A favorable opportunity for discussion of this matter should be afforded by the presence of General Wedemeyer and General Hurley in Washington.

The initial step which we propose for consideration, predicated upon the assumption of the existence of the military necessity, is that the President inform Chiang Kai-shek in definite terms that we are required by military necessity to cooperate with and supply the Communists and other suitable groups who can aid in this war against the Japanese, and that to accomplish this end, we are taking direct steps. Under existing conditions, this would not include forces which are not in actual position to attack the enemy, such as the Szechwan warlords. Chiang Kai-shek can be assured by us that we do not contemplate reduction of our assistance to the Central Government. Because of transport difficulties, any assistance we give to the Communists or to other groups must be on a small scale at first. It will be less than the natural increase in the flow of supplies into



China, in all probability. We may include a statement that we will furnish the Central Government with information as to the type and extent of such assistance. In addition, we can inform Chiang Kai-shek that it will be possible for us to use our cooperation and supplies as a lever to restrict them to their present areas and to limit aggressive and independent action on their part. Also we can indicate the advantages of having the Communists assisted by the United States instead of seeking direct or indirect help or intervention from the Soviet Union.

Chiang Kai-shek might also be told, if it is regarded as advisable, at the time of making this statement to him, that while our endeavor to persuade the various groups of the desirability of unification has failed and it is not possible for us to delay measures for the most effective prosecution of the war any longer, we regard it as obviously desirable that our military aid to all groups be based upon coordination of military command and upon unity, that we are prepared, where it is feasible, and when requested, to lend our good offices to this end, and although we believe the proposals should come from Chiang Kai-shek, we would be disposed to support the following:

First, formation of something along the line of a war cabinet or supreme war council in which Communists and other groups would be effectively represented, and which would have some part in responsibility for executing and formulating joint plans for war; second, nominal incorporation of Communist and other forces selected into the armies of the Central Government, under the operational command of United States officers designated by Chiang Kai-shek upon General Wedemeyer's advice, upon agreement by all parties that these forces would operate only within their existing areas or areas which have been specifically extended. However, it should be clearly stated that our decision to cooperate with any forces able to assist the war effort will neither be delayed by nor contingent upon the completion of such internal Chinese arrangements.

It is our belief that such a *modus operandi* would serve as an initial move toward complete solution of the problem of final entire unity, and would bridge the existing deadlock in China. The principal and over-riding issues have become clear, as one result of the recent negotiations. At the present time, Chiang Kai-shek will not take any forward step which will mean loss of face, personal power, or prestige. Without guarantees in which they believe, the Communists will not take any forward step involving dispersion and eventual elimination of their forces, upon which depend their strength at this time and their political existence in the future. The force required to break this deadlock will be exerted on both



parties by the step we propose to take. The *modus operandi* set forth in these two proposals should initiate concrete military cooperation, with political cooperation as an inevitable result, and consequently furnish a foundation for increasing development toward unity in the future.

The political consultation committee plan, which could function, if adopted, side by side with the Government and the war council, would not be excluded by these proposals. It should be anticipated that the committee would be greatly strengthened, in fact.

Of course, the statements to the Generalissimo should be made in private, but the possibility would be clearly understood, in case of his refusal to accept it, of the logical, much more drastic step of a public expression of policy such as that which was made by Churchill with reference to Yugoslavia.

The fact of our aid to the Communists and other forces would shortly become known throughout China, however, even if not made public. It is our belief that profound and desirable political effects in China would result from this. A tremendous internal pressure for unity exists in China, based upon compromise with the Communists and an opportunity for self-expression on the part of the now repressed liberal groups. Even inside the Kuomintang, these liberal groups such as the Sun Fo group, and the minor parties, were ignored in recent negotiations by the Kuomintang, although not by the Communists, with whom they present what amounts to a united front, and they are discouraged and disillusioned by what they regard as an American commitment to the Kuomintang's existing reactionary leadership. We would prove we are not so committed by the steps which we proposed, we would markedly improve the prestige and morale of these liberal groups, and the strongest possible influence would be exerted by us by means of these internal forces to impel Chiang Kai-shek to make the concessions required for unity and to put his own house in order.

Such a policy would unquestionably be greatly welcomed by the vast majority of the people of China, even though not by the very small reactionary minority by which the Kuomintang is controlled, and American prestige would be increased by it.

The statement has been made to a responsible American by Sun Fo himself that if Chiang Kai-shek were told, not asked, regarding United States aid to Communists and guerrillas, this would do more to make Chiang Kai-shek come to terms with them than any other course of action. It is believed by the majority of the people of China that settlement of China's internal problems is more a mat-

ter of reform of the Kuomintang itself than a matter of mutual concessions. The Chinese also state, with justification, that American non-intervention in China cannot avoid being intervention in favor of the conservative leadership which exists at the present time.

In addition, by a policy such as this, which we feel realistically accepts the facts in China, we could expect to obtain the cooperation of all the forces of China in the war; to hold the Communists to our side instead of throwing them into the arms of the Soviet Union, which is inevitable otherwise in the event the U.S.S.R. enters the war against Japan; to convince the Kuomintang that its apparent plans for eventual civil war are undesirable; and to bring about some unification, even if not immediately complete, that would furnish a basis for peaceful development toward complete democracy in the future.

General Hurley strongly opposed the course of action recommended above and it remained the policy of the United States to supply military matériel and financial support only to the recognized Chinese National Government.<sup>8</sup>

## IV. CHINA AND THE SOVIET UNION

### AGENDA FOR DR. SOONG'S MOSCOW CONVERSATIONS

Shortly before his visit to Washington Ambassador Hurley had raised the question of negotiations between the Chinese National Government and the Soviet Government. On February 4 the Ambassador reported to the Department of State that the Chinese Government contemplated sending Dr. T. V. Soong to Moscow for a conference as a personal representative of the Generalissimo. He transmitted a tentative agenda for the conference which the Chinese Government had prepared and added that the Chinese Government had asked for changes or suggestions in the agenda. His telegram concluded as follows:

"In connection with this situation bear in mind that early last September Ambassador Harriman, Mr. Nelson and myself conferred with Mr. Molotov on the Soviet attitude toward the Communists in China, believing that understanding of this was essential to settlement of the Chinese Communist and National Government controversy. Mr. Molotov stated roughly as follows:

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<sup>8</sup> For a detailed account of United States aid to China prior to, during and subsequent to this period, see chapter I, pp. 26-28, the sections on military aid and financial aid in Chapters V and VIII, and annexes 171 and 185.



"(1) The so-called Chinese Communists are not in fact Communists at all.

"(2) The Soviet Government is not supporting the Chinese Communists.

"(3) The Soviets do not desire dissensions or civil war in China.

"(4) The Soviets complain of Chinese treatment of Soviet citizens in China but frankly desire closer and more harmonious relations in China. . . . The Chinese are anxious to ascertain if the Soviet attitude continues as outlined last September by Molotov. On this I am unable to give any definite assurances for the simple reason that I do not know."

In response to this report the Acting Secretary of State, Joseph C. Grew, informed the Ambassador on February 6 as follows:

"On the subject of your telegram, we feel, and believe you will concur in our opinion, that while we are at all times anxious to be helpful to the Chinese Government we should not permit the Chinese Government to gain the impression that we are prepared to assume responsibility as 'advisor' to it in its relations with the USSR. Former Vice President Wallace, with the subsequent approval of the President, indicated clearly last summer to Chiang Kai-shek in response to a suggestion by Chiang that the United States could not be expected to act as 'mediator' between China and Russia. Furthermore, the President in a message to the Generalissimo<sup>\*</sup> transmitted through the Embassy in July 1944 stated that a conference between Chinese and Russian representatives would be greatly facilitated if, prior thereto, the Chinese Government had reached a working arrangement with the Chinese Communists for effective prosecution of the war against Japan. In a message to the Embassy at Chungking in September 1944, the President and the Secretary expressed views, for communicating by Ambassador Gauss to Chiang Kai-shek with regard to importance of reaching such a 'working arrangement'.

"With particular reference to the proposed agenda, we feel that the Chinese must reach their own decision with regard to what questions they should (or should not) discuss with the Russians and that we ought not take it upon ourselves to place a caveat upon or to sponsor discussion of any particular question. . . . With reference to your final and ultimate paragraphs, we have no concrete information which runs counter to the four points mentioned by you. We appreciate receiving your report on this matter and hope that you will keep us

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<sup>\*</sup> This message and related ones concern the conversations between Vice President Wallace and the Generalissimo. They will be found in annex 43 to chapter II.



informed of developments. You will, of course, know best how to handle discussions on the subject with the Chinese in a manner which will be helpful to them and unprejudicial to our position."

By telegram dated February 18 General Hurley answered:

"I had prepared a reply to your message which I did not send. In your message you appear to have reduced my role in these negotiations to the position of merely making a suggestion without implementing the suggestion. That is the method followed by Ambassador Gauss when he transmitted the President's and the Secretary of State's message on September 9 last. That message, as you now know, obtained no results whatever because it lacked vigorous implementation. I decided, however, not to send the telegram as I hoped to see you and discuss the situation more fully. It is my earnest desire to be amenable to every suggestion from the State Department even when I believe our position is weakened and accomplishment postponed by lack of vigorous implementation of suggestions. Perhaps this respite in negotiations and my visit with the State Department will clarify in my mind the distance I will be able to go in promotion of the war effort by inducing or compelling the unification of Chinese armed forces and the coordination of effort to assist us in the defeat of Japan."

#### **AMBASSADOR HURLEY'S INTERVIEW WITH MARSHAL STALIN, APRIL 15, 1945**

After consultation in Washington, the Ambassador departed on April 3, 1945, for Chungking. He travelled by way of London and Moscow in order to discuss American policy in China with British and Soviet leaders. He reported to the Department of State that on the night of April 15, 1945, he had concluded a conference with Marshal Stalin and Foreign Minister Molotov in which the Ambassador, Mr. Harriman, had also participated. With respect to this conference General Hurley reported to the Department that he had recited for Marshal Stalin in the presence of Mr. Molotov his analysis of Mr. Molotov's earlier statement respecting the Soviet attitude toward the Chinese Communist Party and the National Government. His report, dated April 17, continued:

"My analysis was briefly as follows: 'Molotov said at the former conference that the Chinese Communists are not in fact Communists at all. Their objective is to obtain what they look upon as necessary and just reforms in China. The Soviet Union is not supporting the Chinese Communist Party. The Soviet Union does not desire internal dissension or civil war in China. The Government of the Soviet Union wants closer and more harmonious relations in China. The

Soviet Union is intensely interested in what is happening in Sinkiang and other places and will insist that the Chinese Government prevent discriminations against Soviet Nationals.' Molotov agreed to this analysis. I then outlined for Stalin and Molotov existing relations between the Chinese Government and the Chinese Communist Party. I stated with frankness that I had been instrumental in instituting conferences and negotiations between the Chinese Communist Party and the Chinese Government. I then presented in brief form an outline of the negotiations, of the progress which had been made and of the present status. I informed Stalin that both the Chinese Government and the Chinese Communist Party claimed to follow the principles of Sun Yat-sen for the establishment of a government of the people, by the people and for the people in China. I continued that the National Government and the Chinese Communist Party are both strongly anti-Japanese and that the purpose of both is to drive the Japanese from China.- Beyond question there are issues between the Chinese Communist Party and the Chinese Government, but both are pursuing the same principal objective, namely, the defeat of Japan and the creating of a free, democratic and united government in China. Because of past conflicts there are many differences on details existing between the two parties. I made clear American insistence that China supply its own leadership, arrive at its own decisions, and be responsible for its own policies. With this in mind, the United States had endorsed China's aspirations to establish a free, united government and supported all efforts for the unification of the armed forces of China. I informed him that President Roosevelt had authorized me to discuss this subject with Prime Minister Churchill and that the complete concurrence of Prime Minister Churchill and Foreign Secretary Eden had been obtained in the policy of endorsement of Chinese aspirations to establish for herself a united, free, and democratic government and for the unification of all armed forces in China in order to bring about the defeat of Japan. To promote the foregoing program it had been decided to support the National Government of China under the leadership of Chiang Kai-shek. Stalin stated frankly that the Soviet Government would support the policy. He added that he would be glad to cooperate with the United States and Britain in achieving unification of the military forces in China. He spoke favorably of Chiang Kai-shek and said that while there had been corruption among certain officials of the National Government of China, he knew that Chiang Kai-shek was 'selfless', 'a patriot' and that the Soviet in times past had befriended him. I then related to Stalin and Molotov the request made by the Chinese Communists for representation at the San Francisco Conference. I told them that before leaving China I



had advised the Chinese Communists that the conference at San Francisco was to be a conference of governments and not of political parties and that I had advised the Communists to request representation at San Francisco through the National Government of the Republic of China. I told him that this decision had been upheld by President Roosevelt and that the President had advised Chiang Kai-shek of the advisability of the National Government's permitting the Chinese Communist Party to be represented on the Chinese National Government's delegation to the conference at San Francisco. I told the Marshal that it was a very hopeful sign when Chiang Kai-shek offered a place on the delegation to San Francisco to a Chinese Communist and that the appointment had been accepted. I told Stalin that I thought it was very hopeful that a leading member of the Chinese Communist Party would be a delegate of the Chinese National Government at San Francisco. Stalin agreed that this development was very significant and he approved. I told him that President Roosevelt and Prime Minister Churchill had indicated their approval of the policy outlined. The Marshal was pleased and expressed his concurrence and said in view of the over-all situation, he wished us to know that we would have his complete support in immediate action for the unification of the armed forces of China with full recognition of the National Government under the leadership of Chiang Kai-shek. In short, Stalin agreed unqualifiedly to America's policy in China as outlined to him during the conversation."

#### COMMENTS ON AMBASSADOR HURLEY'S REPORT

Although Mr. Harriman was present during the conversation reported in the foregoing communication, he departed for Washington on consultation before the communication was sent. The Chargé d'Affaires in Moscow, George Kennan, sent a telegram dated April 23 to Mr. Harriman personally in Washington commenting in part as follows:

"In view of your familiarity with the matter and the opportunity that you now have for stating your own views to the Department I am of course making no comment on my own to the Department regarding the report of Ambassador Hurley nor did I make any to him since your views were not known to me, but I do want to let you know that it caused me some concern to see this report go forward. I refer specifically to the statements which were attributed to Stalin to the effect (1) that he expressed unqualified agreement with our policy in China as Ambassador Hurley outlined it to him, (2) that this policy would be supported by the Soviet Government and (3) that we would



have his complete support, in particular, for immediate action directed toward the unification of the armed forces of China with full recognition of the Chinese National Government under the leadership of Generalissimo Chiang Kai-shek. . . .

"There was, of course, nothing in Ambassador Hurley's account of what he told Stalin to which Stalin could not honestly subscribe, it being understood that to the Russians words mean different things than they do to us. Stalin is of course prepared to affirm the principle of unifying the armed forces of China. He knows that unification is feasible in a practical sense only on conditions which are acceptable to the Chinese Communist Party. . . .

"Actually I am persuaded that in the future Soviet policy respecting China will continue what it has been in the recent past: a fluid resilient policy directed at the achievement of maximum power with minimum responsibility on portions of the Asiatic continent lying beyond the Soviet border. This will involve the exertion of pressure in various areas in direct proportion to their strategic importance and their proximity to the Soviet frontier. I am sure that within the framework of this policy Moscow will aim specifically at: (1) Reacquiring in substance, if not in form, all the diplomatic and territorial assets previously possessed on the mainland of Asia by Russia under the Czars. (2) Domination of the provinces of China in central Asia contiguous to the Soviet frontier. Such action is dictated by the strategic necessity of protecting in depth the industrial core of the U.S.S.R. (3) Acquiring sufficient control in all areas of north China now dominated by the Japanese to prevent other foreign powers from repeating the Japanese incursion. This means, to the Russian mind, the maximum possible exclusion of penetration in that area by outside powers including America and Britain. . . .

"It would be tragic if our natural anxiety for the support of the Soviet Union at this juncture, coupled with Stalin's use of words which mean all things to all people and his cautious affability, were to lead us into an undue reliance on Soviet aid or even Soviet acquiescence in the achievement of our long term objectives in China."

On April 19, 1945, Ambassador Harriman discussed General Hurley's report with Mr. E. F. Stanton of the Office of Far Eastern Affairs of the Department of State.

The memorandum of conversation indicated that Mr. Harriman felt that General Hurley's report, while factually accurate, gave a "too optimistic impression of Marshal Stalin's reactions." Mr. Harriman was certain that Marshal Stalin would not cooperate indefinitely with Chiang Kai-shek and that if and when Russia entered the conflict

in the Far East he would make full use of and would support the Chinese Communists even to the extent of setting up a puppet government in Manchuria and possibly in North China if Kuomintang-Communist differences had not been resolved by that time. He indicated that he had impressed on General Hurley the fact that statements made by Stalin endorsing our efforts in China did not necessarily mean that the Russians would not pursue whatever course of action seemed to them best to serve their interests. Mr. Harriman feared that Ambassador Hurley might give Chiang Kai-shek an "over-optimistic account of his conversations with Stalin" and he thought it might be advisable to suggest to General Hurley that he should be careful "not to arouse unfounded expectations." On April 23 Secretary Stettinius instructed Ambassador Hurley as follows:

"I attach great importance to Marshal Stalin's endorsement at the present time of our program for furthering the political and military unity of China under Generalissimo Chiang Kai-shek. However, at the same time I feel, as I have no doubt you do also, the necessity of facing the probability that Marshal Stalin's offer is given in direct relation to circumstances that are existing now and that may not long continue. The U.S.S.R. is at present preoccupied in Europe and the basis for her position in Asia following the war is not yet affected by the Communist-Kuomintang issue to an appreciable degree. In view of these circumstances I can well appreciate the logic of Marshal Stalin's readiness to defer to our leadership and to support American efforts directed toward military and political unification which could scarcely fail to be acceptable to the U.S.S.R. If and when the Soviet Union begins to participate actively in the Far Eastern theater, Chinese internal unity has not been established and the relative advantages of cooperation with one side or the other become a matter of great practical concern to the future position of the Soviet Union in Asia, it would be equally logical, I believe, to expect the U.S.S.R. to reexamine Soviet policy and to revise its policy in accordance with its best interests. Consequently I believe that it is of the utmost importance that when informing Generalissimo Chiang Kai-shek of the statements made by Marshal Stalin you take special pains to convey to him the general thought expressed in the preceding paragraph in order that the urgency of the situation may be fully realized by him. Please impress upon Generalissimo Chiang Kai-shek the necessity for early military and political unification in order not only to bring about the successful conclusion of the Japanese war but also to establish a basis upon which relations between China and the Soviet Union may eventually become one of mutual respect and permanent friendship."



## AMBASSADOR HURLEY'S REVIEW OF SOVIET-CHINESE COMMUNIST RELATIONS

General Hurley following his return to Chungking, in a report discussing negotiations between the Chinese Government and the Chinese Communist Party stated early in July 1945:

"We are convinced that the influence of the Soviet will control the action of the Chinese Communist Party. The Chinese Communists do not believe that Stalin has agreed or will agree to support the National Government of China under the leadership of Chiang Kai-shek. The Chinese Communists still fully expect the Soviet to support the Chinese Communists against the National Government. Nothing short of the Soviet's public commitment will change the Chinese Communists' opinion on this subject. . . . Before the Yalta Conference,<sup>9a</sup> I suggested to President Roosevelt a plan to force the National Government to make more liberal political concessions in order to make possible a settlement with the Communists. The President did not approve the suggestion.

"I believe the Soviet's attitude toward the Chinese Communists is as I related it to the President in September last year and have reported many times since. This is also borne out by Stalin's statement to Hopkins and Harriman. Notwithstanding all this the Chinese Communists still believe that they have the support of the Soviet. Nothing will change their opinion on this subject until a treaty has been signed between the Soviet and China in which the Soviet agrees to support the National Government. When the Chinese Communists are convinced that the Soviet is not supporting them, they will settle with the National Government if the National Government is realistic enough to make generous political settlements. The negotiations between the National Government and the Communist Party at this time are merely marking time pending the result of the conference at Moscow.<sup>10</sup>

"The leadership of the Communist Party is intelligent. When the handwriting is on the wall, they will be able to read. No amount of argument will change their position. Their attitude will be changed only by inexorable logic of events. The strength of the armed forces of Chinese Communists has been exaggerated. The area of territory controlled by the Communists has been exaggerated. The number of

<sup>9a</sup> See chapter IV.

<sup>10</sup> This refers to the negotiations between T. V. Soong and Molotov in Moscow which began early in July, and were continued intermittently throughout July and August culminating in the signing of the Sino-Soviet Treaty of Friendship and Alliance and related agreements in Moscow on Aug. 14, 1945. These negotiations are discussed in chapter IV.



Chinese people who adhere to the Chinese Communist Party has been exaggerated. State Department officials, Army officials, newspaper and radio publicity have in a large measure accepted the Communist leaders' statements in regard to the military and political strength of the Communist Party in China. Nevertheless, with the support of the Soviet the Chinese Communists could bring about civil war in China. Without the support of the Soviet the Chinese Communist Party will eventually participate as a political party in the National Government."

## V. FURTHER GOVERNMENT-COMMUNIST NEGOTIATIONS

### SIXTH KUOMINTANG CONGRESS, MAY 1945

The Sixth Plenary Session of the Kuomintang Congress was inaugurated in Chungking in May 1945. In commenting on the opening address of the session by Generalissimo Chiang, the Ambassador noted that the Generalissimo made no direct reference to the Communist program although he obviously did nothing to close any door against Communism. The Generalissimo had recently held two conferences with the Ambassador on the subject of unification of all anti-Japanese armed forces in China and had stated that while the situation was not moving as rapidly as desired, progress with the Communists was being made.

On May 17, 1945, the Kuomintang Congress passed a resolution concerning the Chinese Communist problem. This resolution stated that the Kuomintang had consistently striven for China's freedom and equality through national unity and the prosecution of the war, while the Chinese Communist Party, despite its pledges of 1937, "had persisted in armed insubordination." The resolution pointed out that with the convening of the National Assembly in sight it would be possible to establish a constitutional government "in the not distant future." It was hoped that the Communists would not fail to appreciate the difficulties confronting the nation and that an amicable solution would be reached.

In another resolution adopted on May 16, 1945, the Kuomintang Congress stated that China harbored no territorial ambitions; that all China wanted was the preservation of its territorial and administrative integrity and fair and equal treatment for all its nationals overseas; that it was hoped that the five great powers would continue to cooperate after the war; that friendly cooperation between the Soviet Union and China was especially necessary; that China would do

everything possible to ensure the success of the San Francisco Conference; and that national unity and a constitutional government were the cherished objectives of Kuomintang endeavor.

In a report to the Department, early in June, 1945, Ambassador Hurley stated:

"In the view of the Chinese government the principal achievements of the recently concluded Sixth Kuomintang Congress are as follows:

"1. All Kuomintang Party headquarters in the army will be abolished within three months. Similar action will be taken in the schools.

"2. Within six months local representation councils will be established in all provinces and districts in free China on the basis of popular elections.

"3. A law to give legal status to political parties will be promulgated and the government hopes that the Communist Party will qualify thereunder. In this connection, the government has reiterated its intention to seek settlement of the Communist problem through negotiations.

"4. Measures have been decided upon with a view to improving the position of peasant farmers; reduction of renting; questions of land tenure and land taxation.

"5. A decision to hold a national assembly was confirmed and it is scheduled to convene on November 12, 1945.

"The question of membership in the National Assembly will be referred to the People's Political Council on which it is anticipated that all parties will be represented."<sup>11</sup>

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<sup>11</sup> General Hurley subsequently reported that the First Plenary Session of the Fourth People's Political Council convened in Chungking on July 7, 1945, with 218 of 290 members present. The eight Communist members were not present; a few of the twelve Democratic League Members attended. He further reported that on July 19 the Council adopted the following resolutions (as published in the Central News Agency): "(1) The date for the convocation of the National Assembly is to be left to the discretion of the government. (2) The membership of the Assembly with due regard to the legal and practical aspects of the issue and in accord with the opinions of the P. P. C. members should provide the fullest possible representation of all classes of the people in the country. (3) When a constitution is adopted, a constitutional government shall be inaugurated. (4) Prior to the convocation of the Assembly, the government should continue to improve all available political means for obtaining national unity and solidarity, to insure freedom of opinion, of publication, of assembly, and of organized political societies and should enforce the Habeas Corpus Act, recognize the legal status of various political parties and cause the setting up of people's representative organs in all provinces of free China in order to lay a solid foundation for local self-government."



## THE COMMITTEE OF SEVEN

Late in June, the Ambassador reported that pursuant to measures adopted by the Sixth Kuomintang Congress the Government had appointed a committee of seven persons including members of the Kuomintang and of the Democratic League and political independents to negotiate with the Communists. The Ambassador said that the Government thereupon sent a message to Mao Tse-tung, Chairman of the Chinese Communist Party, and Chou En-lai, Vice Chairman, offering to have this committee negotiate with representatives of the Communist Party for a unification of the armed forces of China for the purpose of defeating Japan. The Government had agreed to the recognition of the Communists as a political party in China but declined to recognize it as an armed belligerent or insurrection group. The Communists did not immediately answer and put forth considerable propaganda including a "somewhat defiant" broadcast from Yen-an on June 20 saying among other things that the Chinese Communist Party would not participate in either the People's Political Council meeting to be held in Chungking beginning July 7 or the November Assembly. The Ambassador said that the Government had just received a reply from Mao Tse-tung and Chou En-lai, indicating that they would resume negotiations with the Government. Ambassador Hurley added:

"Although the Communist Party of China had unquestionably been endeavoring recently to bring about clashes between the Communist troops and those of the Government (and has succeeded in causing some clashes, the importance of which had been exaggerated in some quarters), the logic of events seems to now be convincing the Communists that their best interests as a political party may be served by coming to an agreement with the National Government rather than attempting to destroy it. The decision to resume negotiations does not mean that the conflict has been solved. The end is not as yet in sight but the situation seems definitely improved."

The members of the committee referred to above called on the Ambassador on June 27, 1945, and informed him that the committee had been formed to discuss the problem of unifying China, stating that the three political independents had been appointed by the People's Political Council and that the others had volunteered their services. They added that they had called upon the Ambassador to seek his assistance and advice. The Ambassador replied that while he wished to be helpful, the Chinese "should not ask a foreigner to make their decisions for them." His report of this meeting added:



"I suggested that the committee should go over all the proposals and counter-proposals made by the Kuomintang and the Communists during the past six months or so, and from them endeavor to evolve a formula which might be acceptable to both sides. I believed that, as American Ambassador, it would not be proper for me to express an opinion on the merits of the Five-Point Communist Proposal or the Three-Point Kuomintang Proposal. . . . I said that, when the committee had concluded its deliberations in Chungking, I would be glad to provide a plane to take them to Yen-an for discussions with the Communists. I stated that if, when discussions were under way at Yen-an, both the Communists and others wished me to join in the conversations, I would be happy to do so. I urged that all Chinese taking part in the deliberations and discussions should not do so as members of the Kuomintang, Democratic League, Communist Party, or any other party or group, but as patriotic Chinese who were endeavoring earnestly to bring about a free, united, and democratic China."

On June 28, 1945, General Wang Jo-fei, the ranking Chinese Communist in Chungking at the time, called on the Ambassador. The Counselor of the Embassy, who was also present during the discussion, made a summary of their conversation. The Ambassador recalled to General Wang that he had been instrumental in obtaining the inclusion of a Communist delegate in the Chinese Government delegation to the San Francisco Conference. He recalled also that he had made a trip to Yen-an to confer with Mao Tse-tung and had brought Chou En-lai and others to Chungking twice for the purpose of negotiating with the Government for a settlement. The Ambassador said that he had done more in an effort to bring about a just settlement between the Communists and the Government than any other one man. He said he had been presented in the Communist press in China and elsewhere as being opposed to the Chinese Communists. The Ambassador said that he realized that much of the abuse was coming from people who were opposed to the National Government of China and did not desire the unification of National and Communist armies in China. He said that notwithstanding all these unjust and untrue accusations he was the best friend the Chinese Communists had in Chungking.

The Ambassador recalled that he had assisted them in drafting the Communist Five-Point Proposal. He had presented that proposal to the Generalissimo. The Ambassador said that he believed the press and other attacks on him constituted an attempt to keep the Communists and the Kuomintang apart by persons who wished, for their own selfish reasons, to prevent the creation of a free, united, democratic and strong China. General Wang stated frankly that real communism in China under present conditions was impossible.

The General stated, however, with perfect candor that the Party now supported democratic principles but only as a stepping stone to a future communistic state.

The Ambassador said that he had provided a plane to take the Committee of Seven and General Wang to Yenan on July 1; that the committee had requested his assistance in the discussion, but that he would not do so unless requested by the Communists. The Ambassador inquired whether the Communists would be willing to join a steering committee to advise throughout the transition period (remainder of the "period of tutelage" which would presumably end with the adoption of a constitution by the National Assembly opening on November 12) and suggested ways and means to improve the Government. General Wang replied that this would depend on whether the committee had real power; if it were only to be a committee without real authority, then it would not be acceptable.

The Ambassador recalled that he had brought the Communist Five-Point Proposal to Chungking where some Government officials had told him that he had "been sold a bill of goods" by the Communists. However, he felt that he was making progress in convincing the Generalissimo that the proposals were generally reasonable.

General Chou En-lai had asked that the four conditions he had proposed on December 28, 1944, be met by the National Government as conditions precedent to any agreement by the Communists on the Five Points which they themselves had submitted through the Ambassador. The Ambassador remarked that the Government had already withdrawn some sixty thousand troops from the north; there was considerable freedom of speech and press (the Communist newspaper was allowed to be published in Chungking); the secret police were necessary in war time to deal with important security matters as witness the FBI and England's Scotland Yard. The Ambassador said that if the Five-Point Proposal were agreed to, the Communists would then be a part of the Government and would themselves take a hand in the settlement of the questions included in the Four-Point Proposal which Chou En-lai had sent to General Hurley on December 28, 1944.

General Wang believed that the Five-Point Proposal with some alterations would still be acceptable to the Communists as a basis for negotiations, indicating, however, that they would like to see the four points accepted before agreeing on the five points. The Ambassador told General Wang that he believed the Five-Point Proposal of the Communists and the Three-Point Proposal of the Government contained in themselves sufficient basis for an agreement between the parties.



General Wang requested that, while the Committee of Seven was engaged in conversations with the Communists at Yen-an, the Ambassador endeavor to persuade the Generalissimo to accept the Four-Point Proposal as a condition precedent to further negotiations. The Ambassador replied that for the reasons already stated, he could not do so. Action on the four points should come after and not before an agreement with the armed Communist Party. The Ambassador stated frankly that nearly everyone familiar with the situation was of the opinion that if the Generalissimo conceded the four points prior to an agreement, the Communists would not enter into any agreement at all.

The above-mentioned committee went to Yen-an by air on July 1, 1945, and returned on July 5 bearing a document containing new Communist proposals. According to Dr. Wang Shih-chieh, then Minister of Information of the Chinese Government, these proposals covered principally two main points: (1) that the National Chinese Government call off the National Assembly scheduled for November 12, 1945, and (2) that the Chinese Government summon a political conference composed on a basis of equality of three members of the Kuomintang, three members of the Chinese Communist Party and three members of the Democratic League, with an additional three members to be chosen from independent political parties or organizations. General Hurley's own opinion was that this was the Communists' way of playing for time awaiting the results of the Soong Conference at Moscow.

#### AMBASSADOR HURLEY'S DEPARTURE

Negotiations between the Communist representatives and the National Government continued throughout August. Mao Tse-tung accompanied by General Hurley who had gone to Yen-an for this purpose, arrived in Chungking on August 28, 1945, and remained for about a month. The unexpected acceptance by Mao of the invitation to visit Chungking may well have been precipitated in part by the announcement of the Sino-Soviet Treaty of August 14, 1945, which pledged Russian support of the National Government as the only government of China. The Ambassador departed from Chungking for consultation in the United States on September 22, 1945, and arrived in Washington four days later. Shortly before his departure he submitted the following report regarding the negotiations then being conducted in Chungking between the National Government and Communist representatives:

"(1) The negotiators have agreed that they will collaborate for the establishment of a democratic government in China for the reconstruction of China and the prevention of civil war.



"(2) Both have agreed to support the leadership of Chiang Kai-shek as President of the Republic.

"(3) They have further agreed that both parties will support the doctrines of Sun Yat-sen and will cooperate for the establishment in China of a strong, democratic government.

"(4) The Communists have agreed that they will recognize the Kuomintang as the dominant party in control of the government and will cooperate with that party during the period of transition from the present form of government to a democratic regime.

"(5) Numerous other questions, including the release of political prisoners, freedom of person, speech, press, belief, assembly and association were agreed upon.

"There are two important points on which the conferees are not yet in agreement, although both parties have made concessions toward making agreement possible. One point is that the Communists claim the right to appoint, select, or elect any Communist governors or mayors in certain provinces. The Government contends that until a constitution has been adopted and a democratic government inaugurated the prerogative of appointing governors and officials is vested in the President of the Republic. . . . The Government considers that this should not be changed until the transitory period from the present government to a constitutional government has been achieved. Both parties agree to work together during the transitional period. The next point on which the parties have approached an agreement but have not finally agreed is the number of Communist troops that are to be included in the National peace-time army of China. The Communists first contended that they should have 48 Communist divisions. It was pointed out by the Government that the present plan calls for a peace-time army consisting of 80 to 100 divisions, and that the Communists, who the Nationalists claim are in minority, are claiming the right to approximately one-half of the peace-time army. . . . This, the Nationalists refuse to agree to, but they have offered the Communists 20 divisions, or what will constitute approximately one-fifth of the planned peace-time army. Chairman Mao Tse-tung said that they did not reject the offer but that the Communists wanted to give it further consideration.

"The overall achievement in this conference has been to keep the Communists and the Nationalists talking peace-time cooperation during the period for which civil war has been predicted by nearly all the elements who are supporting a policy to keep China divided against herself. The conferences will continue. Mao Tse-tung is remaining in Chungking. The Generalissimo had given Mao his word and pledged his character for the safe conduct of Mao and his party. He

has agreed to give Mao and his party transportation to Yen-an at any time they wish to discontinue the conferences.

"I told the Communists and Government negotiators last night that in my opinion they were attempting to settle too many details. . . . I said that if they could agree on basic overall principles, details could be worked out in accordance with such principles.

"The spirit between the negotiators is good. The rapprochement between the two leading parties of China seems to be progressing, and the discussion and rumors of civil war recede as the conference continues."

The Embassy at Chungking reported that the Ambassador had delayed his departure from September 18 to September 22, to remain in China an additional four days upon the earnest request of both the Chinese Communist representatives and the Chinese Government negotiators "to render assistance in reaching agreement." The Embassy added "for the Department's information, both parties have expressed deep appreciation of the cooperation and assistance of the Ambassador. They have agreed upon a paragraph to be included in their proposed final resolution thanking the Ambassador for his great services to China in bringing about the conference and in his general helpfulness as mediator during the negotiations." In a letter to President Truman dated September 17, 1945, President Chiang stated that "General Hurley's wise statesmanship and human qualities have won the respect and affection of the Chinese people who see in him a fitting symbol of American foreign policy of fair-play and justice. I have talked with General Hurley at length and with perfect frankness regarding the policy of my government on various questions, and have asked him to acquaint you, Mr. President, with the various aspects which have a bearing on the implementation of continued close collaboration between China and the United States in the maintenance of peace and order in the Far East."

#### CONTINUING NEGOTIATIONS AT CHUNGKING

Negotiations continued in Chungking between the Chinese Communists and the National Government following the departure of the Ambassador. Early in October, Dr. K. C. Wu, the Minister of Information of the Chinese Government, requested the Embassy at Chungking to convey the following message to General Hurley:

"The Chinese Communists have agreed to accept the proposal by the National Government that they be allotted 20 divisions in the National Army. A military commission will decide how soon the forces of the Chinese Communists can be organized into 20 divisions.



The Chinese Communists will be represented on this commission by the Chief of Staff, General Yeh Chien-ying and certain other officers designated by him. The National Government will be represented by General Lin Wei-wen, Vice Minister of War, and General Liu Pei, Vice Minister of Military Operations.

"Furthermore, agreement has been reached that prior to the establishment of a constitutional government the National Government will organize a political council of 37 members. This council will represent independents and all parties. The council will consider and make recommendations regarding (1) a draft constitution for submission to a people's congress, (2) whether a people's congress should be convened on November 12 as planned or postponed to a later date, and (3) a policy for peaceful reconstruction.

"The Chinese Communists proposed that the council adopt a 'system of absolute veto'. The representatives of the National Government have not yet agreed to this proviso which would mean that all proposals would have to receive unanimous approval before they became effective.

"Discussions of the political council shall be open to the public and not secret. Decisions adopted by it shall be final and conclusive. Resolutions which are adopted by it shall be carried out in accordance with due process of law by the National Government."

Mao Tse-tung returned to Yen-an by plane on October 11, 1945. Just prior to his departure, General Chou En-lai discussed the progress of negotiations with a member of the staff of the American Embassy. From this conversation it appeared that a joint Government-Communist statement, which would probably be made public on the day of Mao's departure for Yen-an, was being prepared. The points of agreement were set forth in an official statement issued on October 11. Chou said that the only principal point remaining on which some sort of agreement had not been reached was the question of the government of liberated areas which were then under control of the Chinese Communists; in particular he mentioned the provinces of Hopei, Shantung, and Chahar. According to Chou the Chinese Communist Party desired that the governors of the liberated areas be appointed by a council which would be elected from districts and villages. He added that the Government was agreeable to elections in the districts and villages but insisted that the Central Government appoint directly provincial governors. In the opinion of the Embassy the two sides were far from agreement on the basic question of political control in the liberated areas now dominated by the Chinese Communists. On October 11 the Government released the text of the agreement with the



Communists.<sup>12</sup> The important feature of this agreement was that it called for the convening of the Political Consultation Conference for the implementation of the agreed general principles. General Marshall was later to assist in this effort.

In mid-October 1945 the Embassy at Chungking reported that it had been informed that Wang Jo-Fei had returned from Yen-an, that Governor Chang Chun of Szechwan would arrive in Chungking in a few days and that upon his arrival he, together with Dr. Wang Shih-chieh, then Minister of Foreign Affairs, and Shao Li-tze, Secretary General of the People's Political Council, would represent the Chinese Government in renewed conversations with the Communists, Chou En-lai and Wang Jo-Fei. The conversations would cover matters relating to the following subjects: (1) the Political Consultative Council; (2) liberated areas; and (3) the National Assembly. It was expected that the conversations would last for about ten days. Upon conclusion of the conversations Chou En-lai would carry back the proposals to Yen-an for decision by the Chinese Communist authorities. The Chinese Communist authorities would then appoint delegates who would come to Chungking to attend the Political Consultative Conference, which it was anticipated would be held early in November. It had been decided that General Yeh Chien-ying, Chief of Staff of the 18th Army Group, would come to Chungking with the Communist delegates, probably as a delegate himself and also to serve as a Communist member of the subcommittee of three to discuss military questions. The Embassy at Chungking felt that the Communist representative was "definitely much more optimistic" than he had previously been with respect to the likelihood of an eventual agreement between the Central Government and the Communists, and had expressed great satisfaction over the announcement in the press that Ambassador Hurley would shortly return to China.

Although a published statement issued by Dr. K. C. Wu, the Chinese Minister of Information, on October 27 indicated that the Government-Communist conversations were "progressing in a cordial atmosphere," Wang Ping-nan, a Communist representative at Chungking, informed the Embassy that recent negotiations had made no progress. He expressed the opinion that the Government apparently intended to play for time while securing military control over areas liberated by the Communists, and he voiced the Communist resentment of what he termed "American intervention" in landing troops at many points in North China to hold them pending the arrival of Government troops, large elements of which had been flown north by the United States Air Force.<sup>13</sup> According to the Embassy, he at first

<sup>12</sup> See annex 49.

<sup>13</sup> For an account of military operations in 1945 see chapter VII.

parried a query in regard to the Manchurian situation but afterwards said there were in that area a few Eighth Route Army personnel. In the main, he said, there had been a rising up of the common people. He expressed the view that the U.S.S.R. would not interfere in internal conflicts in China, preferring to let the Chinese work out their own problems unless the United States should give active aid to the Kuomintang, in which event the U. S. S. R. might find some action necessary.

### **CLASHES BETWEEN COMMUNIST AND NATIONAL TROOPS**

On November 4, the Embassy at Chungking reported that in the opinion of the Military Attaché the threat of widespread civil war in China seemed to be growing. The Embassy pointed out that the gravity of the situation was demonstrated by the postponement of the convocation in Chungking of the newly organized Political Consultative Conference in deference to discussions between the National Government and the Communists regarding a military truce. The principal weapon of the Communists in their efforts to prevent the Central Government from occupying areas dominated by them was the effectiveness of Communist troops against the railroads in those areas. The Embassy had learned that the Communists had offered to refrain from attacking lines of communication only if the Government promised to stop the movement of Government troops into North China. Since the Government had flatly refused so to do, the Embassy felt that the situation seemed "almost hopeless."

### **POSTPONEMENT OF THE POLITICAL CONSULTATIVE CONFERENCE**

On November 10, 1945, Dr. K. C. Wu informed the Embassy in Chungking that on October 30 the Government had made the following six proposals in writing to the Communists:

"(1) Both sides to give orders to their troops to remain wherever they are and not to attack the other side; (2) the Communists to withdraw their troops from places along railways which they have been raiding and the Government will undertake not to send troops to those places—these sections to be guarded entirely by railway police; (3) a communications supervisory committee to be organized by the People's Political Council with members of the People's Political Council as well as other disinterested representatives from the various concerned localities to carry out inspections along the railway lines and report their findings about the situation; (4) in case the Government finds it necessary to move troops along the Peiping-Suiyuan Railroad, the Tatung-Puchow, the Tsingtao-Tsinan, the northern section of the



Pinghan Railroad, the eastern section of the Lunghai Railroad and the northern section of the Tientsin-Pukow, the Government will consult the Communists first in order to reach agreement; (5) both sides should endeavor earnestly within one month to reach a fundamental arrangement about reorganization of Communist troops and the allotment of places where they will be stationed; (6) the proposed People's Consultative Council should be convened at once." In connection with the last point, Dr. Wu said that everyone but the Communists had already named delegates to the Political Consultative Conference, which would consist of 8 Government, 7 Communist, 13 Third Party, and 9 non-partisan members.

Dr. Wu stated that the Communists had not replied until November 8 and that their reply took the form of counter-proposals which were highly unsatisfactory to the National Government.

The Political Consultative Conference scheduled to meet on November 20 failed to convene with resulting increased pessimism in Chungking regarding further negotiations. On November 25, General Chou En-lai departed from Chungking for Yen-an and on the following day Wang Ping-nan followed him. On November 27, a provisional list of delegates to the Political Consultative Conference was finally released to the press.

On December 1, Wang Ping-nan returned to Chungking; on December 3, he called at the Embassy at Chungking and said that the Chinese Communist leaders had definitely decided to participate in the Political Consultative Conference and that five of the seven Communist delegates had been selected. He said that the remaining two would be selected and the group would fly to Chungking for a meeting to be held possibly about December 10. He would not venture an opinion as to the outcome of the Conference but admitted the great importance of the meeting to the future of China. In this connection, he said that future developments in China depended even to a greater extent, however, on American policy toward China and that therefore the Communists were eagerly awaiting the arrival of General Marshall and an expected clarification of the American position.<sup>11</sup> The Embassy at Chungking reported that during this conversation "Wang made a particular point of stating that Soviet policy is one thing but that Chinese Communist policy is their own and independent of the Soviet policy. In an apparent effort to counter recent charges in the Chinese Government press, he emphasized that the Chinese Communists are particularly desirous of maintaining cordial relations with the United

<sup>11</sup> On Nov. 27, 1945, President Truman announced the appointment of General Marshall as his Special Representative in China. For an account of General Marshall's mission, see chapter V.



States, recognizing that China must have American assistance in the postwar period." The Communist representatives to the Political Consultative Conference failed, however, to arrive in Chungking until December 17 with resulting delay in the convocation of the Conference.

## VI. THE RESIGNATION OF AMBASSADOR HURLEY

Meanwhile, Ambassador Hurley had submitted his resignation in a letter to the President, dated November 26, and his resignation had been accepted by the President in a letter of the following day.<sup>15</sup> The post remained vacant until the appointment of Ambassador Stuart on July 11, 1946.

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<sup>15</sup> For text of General Hurley's letter, see annex 50. On December 7, 1945, Secretary of State Byrnes answered in a public hearing before the Senate Foreign Relations Committee the charges against certain officers of the Department of State which General Hurley had raised in his letter of resignation and which he had amplified before the same committee on December 5 and 6.

## CHAPTER IV

# The Yalta Agreement and the Sino-Soviet Treaty of 1945

## I. THE YALTA AGREEMENT, FEBRUARY 11, 1945

### TEXT OF THE AGREEMENT

On behalf of the United States, Great Britain and the U.S.S.R. on February 11, 1945, Roosevelt, Churchill and Stalin signed at Yalta an agreement containing the political conditions upon which the Soviet Union would enter the war against Japan.<sup>1</sup> This agreement reads as follows:

"The leaders of the three Great Powers—the Soviet Union, the United States of America and Great Britain—have agreed that in two or three months after Germany has surrendered and the war in Europe has terminated the Soviet Union shall enter into the war against Japan on the side of the Allies on condition that:

"1. The status quo in Outer-Mongolia (The Mongolian People's Republic) shall be preserved;<sup>2</sup>

"2. The former rights of Russia violated by the treacherous attack of Japan in 1904 shall be restored, viz:

"(a) the southern part of Sakhalin as well as all the islands adjacent to it shall be returned to the Soviet Union,

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<sup>1</sup> As background to the Yalta Agreement, see chapter I concerning the Cairo Declaration and chapter II on the conversations of Vice President Henry A. Wallace with Generalissimo Chiang Kai-shek in Chungking during June 1944, in which the latter requested the assistance of the United States in bringing about an improvement in Sino-Soviet relations. A summary of these conversations, prepared by a member of the Vice Presidential party, is published as annex 43. At the first formal meeting of the Tehran Conference Marshal Stalin declared that the Soviet Union would enter the war against Japan "once Germany was finally defeated." The question of making Dairen a "free port under international guaranty" and Soviet use of the Manchurian railways were discussed informally during the Tehran Conference.

<sup>2</sup> The Soviet Union as a result of the insertion of "(The Mongolian People's Republic)" later claimed this provision meant independence. The Chinese position was based on the Sino-Soviet Treaty of 1924 which had recognized Chinese sovereignty in Outer Mongolia. For the outcome of the discussion on this point see p. 117.

"(b) the commercial port of Dairen shall be internationalized, the preeminent interests of the Soviet Union in this port being safeguarded<sup>3</sup> and the lease of Port Arthur as a naval base of the U.S.S.R. restored,<sup>4</sup>

"(c) the Chinese-Eastern Railroad and the South-Manchurian Railroad which provides an outlet to Dairen shall be jointly operated by the establishment of a joint Soviet-Chinese Company it being understood that the preeminent interests of the Soviet Union shall be safeguarded<sup>5</sup> and that China shall retain full sovereignty in Manchuria;

"3. The Kurile islands shall be handed over to the Soviet Union.

"It is understood, that the agreement concerning Outer-Mongolia and the ports and railroads referred to above will require concurrence of Generalissimo Chiang Kai-shek. The President will take measures in order to obtain this concurrence on advice from Marshal Stalin.

"The Heads of the three Great Powers have agreed that these claims of the Soviet Union shall be unquestionably fulfilled after Japan has been defeated.

"For its part the Soviet Union expresses its readiness to conclude with the National Government of China a pact of friendship and alliance between the U.S.S.R. and China in order to render assistance to China with its armed forces for the purpose of liberating China from the Japanese yoke."

## DISCUSSIONS AT YALTA

From the available evidence, it is clear that the primary motivation of the Yalta Agreement was military. This aspect is indicated by the fact that Mr. Stettinius, then Secretary of State, was informed by President Roosevelt that since this was predominantly a military matter he (the President) and Mr. Harriman would handle the negotia-

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<sup>3</sup>A controversy was later to arise over this wording, the origin and authorship of which are still obscure. Mr. Harriman, the American Ambassador at Moscow, who was a participant in the discussions, subsequently stated that "there is no reason from the discussions leading up to the Yalta agreements to presume that the safeguarding of the 'preeminent interests of the Soviet Union' should go beyond Soviet interests in the free *transit* of exports and imports to and from [*sic*] the Soviet Union. . . ." (Italics in the original.)

<sup>4</sup>Mr. Harriman has commented on this provision as follows: "I believe President Roosevelt looked upon the lease of Port Arthur for a naval base as an arrangement similar to privileges which the United States has negotiated with other countries for the mutual security of two friendly nations."

<sup>5</sup>As regards this provision Mr. Harriman has also stated his conviction that President Roosevelt had in mind only transit traffic and not any general Russian interest in Manchuria.



tions. Mr. Harriman has subsequently stated that Admiral King was aware of the projected arrangements and considered them the most important outcome of the Yalta Conference.

In a conversation between President Roosevelt and Marshal Stalin on Far Eastern matters during the Yalta Conference, the latter brought up the subject of the political conditions upon which the Soviet Union would enter the war against Japan. In the course of the conversation Marshal Stalin indicated that the political conditions would have to be met because Soviet entry into the Pacific war "would have to be justified to Russian 'public opinion.'"

In general terms the Russian conditions were conceded. It should be remembered that at this time the atomic bomb was anything but an assured reality; the potentialities of the Japanese Kwantung Army in Manchuria seemed large; and the price in American lives in the military campaign up the island ladder to the Japanese home islands was assuming ghastly proportions. Obviously military necessity dictated that Russia enter the war against Japan prior to the mounting of Operation Olympic (the assault upon Kyushu), roughly scheduled for November 1, 1945, in order to contain Japanese forces in Manchuria and prevent their transfer to the Japanese home islands.

There was historical precedent for the specific provisions of the Yalta Agreement, and the subsequent Sino-Soviet Treaty and related agreements of 1945 provided adequate legal guarantees. It was, however, unfortunate that China was not previously consulted. President Roosevelt and Marshal Stalin, however, based this reticence on the already well-known and growing danger of "leaks" to the Japanese from Chinese sources due to the debilitating and suppurative effects of the war. Here again military exigency was the governing consideration. At no point did President Roosevelt consider that he was compromising vital Chinese interests.

#### SOVIET VIEWS ON THE AGREEMENT

At the end of May 1945 Harry Hopkins, at the request of President Truman, visited Moscow. Among other topics he discussed the Far Eastern situation. During the discussions Marshal Stalin stated that the reconstruction of China would depend largely on the United States since Russia would be preoccupied with its own reconstruction; that he proposed no alteration over the sovereignty of Manchuria or any other part of China, either Sinkiang or elsewhere; that the Soviet system was not in existence in Mongolia; that Generalissimo Chiang Kai-shek was the only Chinese leader qualified to undertake the unification of China; that the Chinese Communist leaders were not as good or as well qualified to undertake the task; and that he would welcome

Chinese civilian participation in the administrative taking over of Manchuria.

President Truman in Washington on June 14 repeated the foregoing to Dr. T. V. Soong, then Premier and Foreign Minister of China, who expressed his gratification. Dr. Soong pointed out that, even though the Yalta Agreement referred to the re-establishment of Russian rights lost in the Russo-Japanese War of 1904, by the Sino-Soviet Treaty and related agreements of May 31, 1924 and the Agreement of September 20, 1924, with Chang Tso-lin, then war lord of Manchuria, Russia had renounced special concessions including extra-territoriality. He said that these points would have to be clarified.

On June 15, 1945, Ambassador Hurley informed Generalissimo Chiang Kai-shek of the provisions of the Yalta Agreement pursuant to instructions from the President of June 9, 1945. At the same time the Ambassador communicated to the Generalissimo Marshal Stalin's categorical assurances regarding Chinese sovereignty in Manchuria and his oral concurrence to the principle of the Open Door in China, both of which Stalin had given to the President via Harry Hopkins, who had been on special mission to Moscow in May-June 1945. From the Generalissimo's reaction it was apparent that the Russians had already made the Yalta Agreement known to him.

## II. THE SINO-SOVIET TREATY OF FRIENDSHIP AND ALLIANCE, AUGUST 14, 1945

### NEGOTIATION OF THE TREATY

Sino-Soviet negotiations between Dr. T. V. Soong and Marshal Stalin and Foreign Minister Molotov began in Moscow during the first week in July 1945. Following their interruption by the Berlin Conference, negotiations were resumed in August with Dr. Wang Shi-chieh, the new Chinese Foreign Minister, replacing Dr. Soong as chief Chinese plenipotentiary. Dr. Soong, however, assisted Dr. Wang in the August negotiations. At the outset the United States informed the participants that it expected to be consulted prior to the signature of any Sino-Soviet agreement, in view of its role at Yalta. The American position was that the Yalta Agreement should be complied with—no more, no less.

Difficulties over the interpretation of the provisions of the Yalta Agreement arose from the very beginning, with the Soviet Union interpreting the agreement to suit its own purposes. As the Soviet interpretation of the Yalta Agreement became increasingly apparent, the United States finally felt compelled to inform both parties that certain Soviet proposals exceeded the Yalta provisions. At the be-



ginning of the negotiations the Soviet Union asked (1) for a controlling Soviet interest in the Chinese Eastern and South Manchurian Railways; (2) that the boundaries of the Dairen and Port Arthur leases be those of the Kwantung Peninsula lease prior to the Russo-Japanese War of 1904; and (3) the recognition of the independence of Outer Mongolia. The Chinese believed, and the United States agreed, that these proposals exceeded the provisions of the Yalta Agreement. Secretary of State Byrnes, with the approval of the President, then advised the Chinese Government against making any concessions beyond the terms of the Yalta Agreement. On August 10, 1945, Mr. Harriman, acting on instructions, informed Dr. Soong as a matter of record that the United States Government considered that the proposals which he had already made fulfilled the Yalta Agreement and that any further concessions would be with the understanding that they were made by the Chinese Government because of the value it attached to obtaining Soviet support in other directions. Mr. Harriman reported that Dr. Soong "thoroughly understood and accepted the correctness of this position."

A Treaty of Friendship and Alliance between the Republic of China and the U.S.S.R. was signed on August 14, 1945. At the same time notes were exchanged and agreements signed on various individual and related matters.<sup>6</sup> The Treaty pledged mutual respect for their respective sovereignties and mutual noninterference in their respective internal affairs. In the exchange of notes the Soviet Union promised to give moral support and military aid entirely to the "National Government as the central government of China" and recognized Chinese sovereignty in Manchuria; and China agreed to recognize the independence of Outer Mongolia if a plebiscite after the defeat of Japan confirmed that that was the desire of the Outer Mongolian people.<sup>7</sup> The agreement on Dairen committed China to declare Dairen a free port "open to the commerce and shipping of all nations" and provided for Chinese administration of the port; but it exceeded Yalta by granting the Soviet Union a lease of half of the port facilities, free of charge. This agreement has not been put into effect, since Nationalist military and civil officials have been prevented from functioning in the Kwan-

<sup>6</sup> For full texts see annexes 51-59.

<sup>7</sup> One of the main preoccupations of Dr. Soong during the negotiations was to secure Soviet recognition of Chinese sovereignty in Outer Mongolia, even though this had in fact ceased to exist many years before. The Soviet Union had been the controlling *de facto* force there since the middle 1920's despite the Sino-Soviet Treaty of 1924. (See footnote 2 to this chapter.) Dr. Soong was apparently willing to agree to other significant and important concessions in return for Outer Mongolia and it was with some difficulty that he was persuaded by Mr. Harriman to accept substance in place of form.



tung Peninsula area because of the attitude of the Russians and the Chinese Communists. The agreement on Port Arthur provided for the joint use of the area as a naval base by the two Powers and extended the boundary of that area farther than the United States expected, though not to the pre-1904 boundary which the U.S.S.R. would have preferred. The railway agreement provided for joint ownership and operation of the Chinese Eastern and South Manchurian Railways. The Treaty and the agreements regarding Dairen, Port Arthur, and the railroads were to run for thirty years.<sup>8</sup>

### ASSURANCES ON THE OPEN DOOR

On July 28 in Berlin Mr. Harriman, in a memorandum to Secretary Byrnes, had pointed out that since the United States Government had taken the initiative in inducing China to discuss matters of mutual interest with the Soviet Union, it was incumbent upon the United States to obtain recognition of the principle of the Open Door policy in Manchuria and to make certain that the resulting Sino-Soviet arrangements did not have the effect of giving the Soviet Union special advantages over American and other foreign commerce with Manchuria, or of shutting out foreign trade from that part of China. He therefore recommended that the Soviet Union be requested to give written assurances of support for the Open Door policy. This suggestion was approved by the Department of State on August 5, 1945. On August 14, however, Mr. Harriman reported that, according to Mr. Molotov, Generalissimo Stalin did not believe there was then any need for a public statement on the Open Door, "especially as he had given his assurances that the Open-Door Policy would be maintained."

The Department on August 22 instructed the Ambassador in Moscow as follows:

"1. The President desires that you arrange to see Stalin or, if this proves impracticable, Molotov, as soon as possible and present to him our views as given below regarding the issuance of a statement affirming respect for the Open-Door policy in connection with the Soong-Stalin agreements.

"2. The oral assurances given by Stalin, as you have indicated to Molotov, are satisfactory to the President. However, you should explain clearly and forcefully the situation in this country where public opinion and public reaction to events of concern to the United States

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<sup>8</sup> About Aug. 10, 1945, Dr. Soong told Mr. Harriman that agreement had been reached on all outstanding points. Mr. Harriman reported that Dr. Soong was "very grateful for our support and is convinced that unless we had taken an active part in the negotiations he would have had to concede to all Stalin's demands."

have great weight and where the public expects and is entitled to be given as full a knowledge as practicable on foreign affairs which may affect the interests of this country. It follows, therefore, that the oral assurances by Stalin do not meet the situation. You may also emphasize the deep interest which the American public has in Far Eastern events and particularly in developments pertaining to China, including Manchuria. In reply to Molotov's assertion that the agreements would make it clear that no restriction would be imposed on foreign commerce, you may state that in so far as the agreements might fail to give assurances regarding full equality of opportunity and freedom from any form of discrimination they would fall short of what we would consider satisfactory. In reply to his point that no such statement had been foreseen at Yalta, you may say that we do not consider it reasonable that, simply because at Yalta the desirability of such assurances was not mentioned, we are therefore not entitled to request these assurances.

"3. With regard to the manner in which Stalin's assurances might be given public form, we suggest and would prefer that the Soviet and Chinese governments issue a statement, at the time of the publication of the agreements, affirming adherence to the policy of the Open Door, equality of opportunity and non-discrimination in matters relating to the management and operation of the railways and the free port of Dairen. We do not insist upon the particular language of the suggested statement as communicated by you to Stalin, but we do feel that any statement issued should give in clear and unequivocal terms the assurances we have requested and which Stalin had agreed to give.

"4. We understand that the Chinese are prepared to issue such a statement and you are authorized to urge on Stalin the desirability of a similar statement by the Soviet Government."

Mr. Harriman on August 27 delivered this message to Stalin, who agreed that the Soviet Union would make a public statement expressing support of the Open Door policy in China, including Manchuria, equal opportunity for trade and commerce, and freedom from discrimination for all free countries. Mr. Harriman assured Generalissimo Stalin that the Chinese Government would make a similar statement after Stalin expressed a preference for separate statements in lieu of a joint Sino-Soviet one. In the same conversation Stalin said that he expected the National Government to send Chinese troops to Manchuria in the near future to take over from the Russians. He added that the Russian Army had as yet found no Chinese Communist guerrilla units in Manchuria and that he believed the National Government and the Chinese Communists would reach agreement, since it was in the interests of both sides to do so.



In a conversation on August 31 the Minister-Counselor of the American Embassy discussed the proposed statement with the Chief of the American Section of the Soviet Foreign Office. The latter seemed to be under the impression that the United States had in mind a statement concerning China in general. The Minister emphasized, however, that the United States was concerned with Manchuria since the statement was intended to relate to the Sino-Soviet arrangements regarding the Russian position in that area.

On September 6 General Hurley informed the Department that the suggestions for a statement had been made at a time when the attitude of the Soviet Union toward the National Government of China had not been publicly and officially stated. The Ambassador believed that publication of the Sino-Soviet Treaty and related agreements had altered the situation: "The publication of these documents has demonstrated conclusively that the Soviet Government supports the National Government of China and also that the two governments are in agreement regarding Manchuria."

In mid-September Mr. Harriman reported a conversation a few days earlier between the Chinese Ambassador in Moscow and Andrei Vyshinsky, Soviet Deputy Foreign Minister, in which the latter had asked for a draft of the proposed statement by the Chinese Government. The Chinese Ambassador added that Dr. Soong was most anxious to have the statement issued but that when he (the Chinese Ambassador) had informed Chungking of the request from Vyshinsky he had been informed that the question had been referred to Dr. Wang Shih-chieh, the Chinese Foreign Minister, who was then in London attending the First Session of the Council of Foreign Ministers. In the end, however, the Chinese Government seemingly took the position that the Sino-Soviet Treaty constituted a sufficient guarantee, since it did not again raise the question. The Soviet Union, which from the beginning had been reluctant, also seems to have allowed the question to lapse.

#### CHINESE REACTION TO THE TREATY

On August 16, 1945, Generalissimo Chiang Kai-shek informed Ambassador Hurley that agreement had been reached with the Soviet Union and that he was "generally satisfied with the treaty." In reporting this conversation to the Department Ambassador Hurley added that his reports "showed the Generalissimo has always doubted the Soviet's position in regard to relations with the Chinese Communists. Yesterday he thanked me for the basis that I had helped him to lay for rapprochement with the Soviets. He admitted that the Sino-Soviet treaty indicates (1) an intention on the part of the



Soviets to assist in bringing about unification of the armed forces in China; (2) an intention to support Chinese efforts to create a strong, unified and democratic government; and (3) an intention to support the National Government of China." In conclusion, General Hurley said that "Chiang Kai-shek will now have an opportunity to show realistic and genuine leadership. He will have an opportunity to show his qualifications for leadership of the Chinese people in peace as well as in war. I am with the Generalissimo frequently. I insist continuously that the Chinese people must be responsible for their own policies, select their own leadership, and make their own decisions."

In a conversation of August 21 with Ambassador Hurley the Chinese Foreign Minister, Dr. Wang Shih-chieh, who had just returned to Chungking, "expressed himself as being satisfied with the results and said that proceedings would commence at once for the approval of the treaty and the notes exchanged between the Soviet and Chinese Governments."

On August 29, Madame Chiang Kai-shek, who was then in the United States, called on the President. She complimented him on the results of the Sino-Soviet conversations and expressed appreciation to the United States Government for the assistance which it had given to the Chinese plenipotentiaries in working out these agreements. The President said that that had been one of his principal objectives in going to Berlin and that he felt strongly that China should be supported in working out the arrangements which had been initiated by President Roosevelt.

Despite criticism of the Sino-Soviet arrangements of August 14, 1945, and as indicative of the value which the Chinese Government attached to them, Dr. Wang Shih-chieh as late as September 14, 1947, in a conversation with General Marshall, then Secretary of State, concerning the question of the veto power as applied to the Japanese peace treaty, expressed his opposition to the elimination of the veto power because of his fears that the Soviet Union "would interpret this, for its own convenience, as virtually cancelling the Sino-Soviet Treaty." The Foreign Minister was concerned at the reaction this would have on the situation in China.

Editorial comment in both Nationalist and Chinese Communist territory expressed approval of the Sino-Soviet Treaty and related agreements at the time they were made public.

#### UNITED STATES REACTION TO THE TREATY

At the time that the Sino-Soviet Treaty and related agreements were made public the United States supported the arrangements. In

a statement issued on August 27, 1945, Secretary Byrnes said that he believed that the treaty and accompanying agreements constituted an "important step forward in the relations between China and the Soviet Union." He added that the United States welcomed this development "as a practical example of the continuing unity and mutual helpfulness which should characterize the acts of members of the United Nations in peace as well as in war."

Nevertheless early in September the American Embassy in Moscow registered a note of caution regarding the significance of the Sino-Soviet arrangements and their relation to the historic course of Russian imperialism. In a telegram of September 10, 1945, to the Department the American Embassy in Moscow summarized its views with respect to Russian intentions in the Far East as follows:

"1. The pact was not necessary for the achievement of any immediate objectives now being obtained by the Red Army. Regardless of the existence of the pact these objectives, including the military occupation of Manchuria and the Liaotung Peninsula, could and would have been achieved.

"2. The effect of the agreements concerning Manchuria should cause no illusion. Russian willingness to withdraw its forces and to admit Chinese to civil affairs control reflects mature statesmanship on the part of Stalin and his Moscow advisers. The initial Russian position as an occupying power, together with greater proximity and the far greater discipline of Russian power, should make it easy for the Russians to remain masters of the situation even after Russian troops have withdrawn. It was tacitly understood by both parties to the Moscow negotiations that Chinese officials in Manchuria would for the most part have to be amenable to Russian influence. Chinese Communist forces, according to recent broadcasts, have been ordered to enter Manchuria and in cooperation with the Russian army, to accept the Japanese surrender. Logically, the Russian authorities and their sympathizers will encourage the use of these Communist forces in the administration of Manchuria after the evacuation of the Russian Army. It should also be realized that local Russian authorities, in matters concerning the internal affairs of neighboring countries, do not always exercise the same restraint as does the Kremlin.

"3. Nothing in the internal regime of Outer Mongolia will be changed with its independence. The only effect will be its elimination as a possible source of future Chinese irredentism and an increase in its usefulness as an instrument for future Russian expansion.

"4. Russian assurances of support to the National Government and of non-interference in internal Chinese affairs reaffirms what has existed for some time. It is probable that any Kremlin control over



the Chinese Communists has been through the Party apparatus and not through government channels. It seems likely that this situation will obtain in the future—namely, control through the Party. The bargaining position of the Chinese Communists on the basis of implied military support is undoubtedly weakened by the Russian assurances. On the other hand, these assurances (a) remove any excuse for a Sino-American crusade against the Chinese Communists as a spearhead of Russian penetration of China, (b) to a considerable extent dispel general suspicion of Russian intentions in China and thus disarm average critics of the Russian role there, and (c) place Russian policy in China on a high and disinterested moral plane. In the meantime, the Russian Communist Party can continue to support the Chinese Communist program of “democratization,” and to exert political pressure on the National Government to compromise.

“5. There should be no misunderstanding of Russian intentions toward Japan and Korea simply because of superficial Russian moderation on Manchuria. In the Russian zone of Korea Communist-trained Korean elements are already being given responsibility for civil affairs. It is a natural tendency or even a deliberately conceived policy for the Russians to seek maximum internal influence in near-by areas through use of persons trained to accept their discipline and to share their ideology.”

#### SOVIET ATTITUDE TOWARD MANCHURIAN INDUSTRIES

About the same time the United States became disturbed over developments in Manchuria. Upon the defeat of Japan, the Soviet Union accepted the surrender of Japanese forces in Manchuria, as well as in southern Sakhalin and the Kurile Islands. While its troops were in Manchuria, the Soviet Government removed considerable Japanese-owned industries and equipment from Manchuria, on the ground that such property was “war booty” because it had been used to support the Japanese war effort. The United States protested these removals to the Soviet Union on a number of occasions, objecting not only to the inclusion of these industries in the concept of war booty, but also to the unilateral action of the Soviet Government in removing Japanese industries from Manchuria. The United States took the position that the disposition of Japanese property in Manchuria should be decided by an Inter-Allied Reparations Commission for Japan on the same basis as for Japanese external assets located in other countries.<sup>8a</sup>

When the Soviet Union proposed to China early in 1946 that control of Japanese industrial enterprises in Manchuria be shared by agreement between the two states, the United States informed both China

<sup>8a</sup> See annex 60.



and the Soviet Union that the establishment of such exclusive bilateral control would be contrary to the principle of the Open Door and would constitute clear discrimination against Americans who might wish to participate in the development of Manchurian industry.

#### DISCUSSIONS AT THE MOSCOW CONFERENCE, 1945

At the Moscow Conference of the Foreign Ministers of the United Kingdom, the United States and the Soviet Union, in December 1945, the United States proposed that the question of transfer of control of Manchuria to the Chinese National Government be included on the agenda of the Conference. Mr. Molotov, the Soviet Foreign Minister, would not agree to the inclusion of this question. He explained that it was not necessary inasmuch as the Soviet Union had a special agreement with China concerning Manchuria and that there were no differences between the two countries on the subject. He said that the evacuation of Russian troops from South Manchuria was completed and that the evacuation from North Manchuria would have been completed if the Chinese Government had not requested that it be delayed for a month. Mr. Molotov insisted, however, on discussing the presence of United States troops in North China. Secretary Byrnes agreed to do so in connection with the disarming of Japanese forces in North China.

During the several meetings at which this question was discussed, Mr. Byrnes made the point that American forces in China were merely assisting in the demobilization of Japanese troops and their deportation from the area. He indicated that this task had been assumed from a feeling of responsibility for the maintenance of peace in North China which was one of the motives prompting the dispatch of General Marshall on special mission. Mr. Molotov stated that the evacuation of Russian troops from Manchuria would be completed by February 1, 1946, and that the Chinese simply wanted to get others to do their work. He added that it was intolerable that there were still Japanese forces which had not yet been disarmed. He called attention to a Soviet memorandum of December 21 which objected to "other foreign troops" assisting in the disarming of Japanese forces in China and demanded that the United States agree with the Soviet Union on a date not later than the middle of January 1946 for simultaneous evacuation of their respective forces from China. In this memorandum the Soviet Government declared that it adhered to a policy of non-interference in the internal affairs of China and indicated that "other states" should do likewise. Mr. Byrnes reiterated that the United States was merely carrying out its responsibilities and denied that the United States was interfering in Chinese internal affairs. He

emphasized that the United States desired a unified and united China, and asked for Soviet cooperation to that end. In a subsequent conversation with Secretary Byrnes, Generalissimo Stalin also objected to the use of American troops in the demobilization of Japanese forces in China.

The communiqué issued at the close of the Moscow Conference contained the following statement regarding China:

"The three Foreign Secretaries exchanged views with regard to the situation in China. They were in agreement as to the need for a unified and democratic China under the National Government, for broad participation by democratic elements in all branches of the National Government, and for a cessation of civil strife. They reaffirmed their adherence to the policy of noninterference in the internal affairs of China.

"Mr. Molotov and Mr. Byrnes had several conversations concerning Soviet and American armed forces in China.

"Mr. Molotov stated that the Soviet forces had disarmed and deported Japanese troops in Manchuria but that withdrawal of Soviet forces had been postponed until February 1st at the request of the Chinese Government.

"Mr. Byrnes pointed out that American forces were in north China at the request of the Chinese Government, and referred also to the primary responsibility of the United States in the implementation of the Terms of Surrender with respect to the disarming and deportation of Japanese troops. He stated that American forces would be withdrawn just as soon as this responsibility was discharged or the Chinese Government was in a position to discharge the responsibility without the assistance of American forces.

"The two Foreign Secretaries were in complete accord as to the desirability of withdrawal of Soviet and American forces from China at the earliest practicable moment consistent with the discharge of their obligations and responsibilities."

#### AMERICAN PROTESTS ON DAIREN

Because Dairen was not opened to commercial vessels in the months following the surrender of Japan, the United States on two occasions during 1947 protested to the Soviet Government on the grounds that American commercial activity was hindered by the port's not being opened to traffic. The Soviet Union replied by referring to the provision of the agreement regarding Dairen of August 14, 1945, which stated that, in case of war with Japan, Dairen was to come under the control of the military regime authorized for the Port Arthur naval base area. The Soviet Union added that in as much as the war with



Japan had not been terminated, there being no peace treaty, Dairen came under the administration of the Port Arthur naval base. The Soviet Government also stated that it "sees no basis for a change of the regime" under which Dairen remained closed to commercial intercourse with other countries. Thus the United States protests were of no avail.

## CONCLUSION

At the time that the Sino-Soviet Treaty and related agreements were concluded they were generally considered in the most favorable light. It was thought that the arrangements would provide a firm basis for peaceful and harmonious relations between the two countries. The Yalta Agreement had, of course, been dictated by military necessity and the vital importance of ensuring the entry of the Soviet Union into the Far Eastern war before the Allied invasion of Japan which had been set for the autumn of 1945. Although the unexpectedly early collapse of Japanese resistance later made some of the provisions of the Yalta Agreement seem unnecessary, the Agreement and the subsequent Sino-Soviet Treaty in fact imposed legal limitations on the action which Russia would, in any case, have been in a position to take. At Yalta, Marshal Stalin not only agreed to declare war on Japan within two or three months after V-E Day but limited his "price" with reference to Manchuria substantially to the position which Russia had occupied there prior to 1904. In the Sino-Soviet Treaty, furthermore, the Soviets agreed to give the National Government of China moral and material support and moreover formalized their assurances of noninterference in Chinese internal affairs. In view of world developments since the conclusion of hostilities against Japan, especially in recent years, there is no evidence to suggest that the absence of such arrangements would have restrained the Soviet Union from pursuing Russia's long-range traditional objectives. Even though the Soviet Union has not seen fit to honor its signed agreements in practice, their existence has had, as the National Government itself has admitted, moral and legal advantage for that Government.



## CHAPTER V

# The Mission of General George C. Marshall 1945-1947<sup>1</sup>

## I. THE ECONOMIC, MILITARY AND POLITICAL SETTING

### INTRODUCTION

After the successful termination of the war against Japan, and at the time General Hurley left Chungking, there were several elements in the situation which plausibly argued that prospects for peace and reconstruction in China were reasonably good. The negotiations between the National Government and the Chinese Communists had reached a stage of agreement on general principles and General Hurley himself felt that agreement on details and implementation was by no means impossible. Both participants in the negotiations still professed their desire and intention to seek a political settlement and there could be little doubt that the overwhelming popular demand was for peace.

Perhaps the most important factor immediately after V-J Day was the economic situation, which, despite the brutal and devastating effects of eight years of war, was surprisingly good and contained many elements of hope.

### GENERAL ECONOMIC SITUATION IMMEDIATELY AFTER V-J DAY

In China proper, although there had been serious wartime disruption in certain sectors of the economy, the productive potential of agriculture, mining, and industry in most of the area taken from the Japanese was not substantially different from that of 1937. The expulsion of the Japanese from Manchuria and Formosa promised to increase several-fold the national industrial plant and to contribute to the achievement of national self-sufficiency in food. Such economic problems as could be foreseen in the late summer of 1945 related less

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<sup>1</sup> The bulk of the material for this chapter has been drawn from the files of General Marshall's Mission.

to the reconstruction of productive equipment than to the organization of production and distribution through facilities already available.

Except in those parts of Central and South China which had been subjected to active military operations in 1944-1945, production of foodstuffs was at or near prewar levels, but agricultural production had shifted significantly away from cash crops, such as cotton, to food crops for local consumption. Heavy losses were inflicted on inland and coastal shipping during the war years, and the railroad from Peiping to Canton and others in South China had suffered serious damage, but the efficiency of the greater portion of railroad facilities was only moderately impaired. The number of motor vehicles in operation had actually increased somewhat during the war. Coal production had increased by about 25 percent under Japanese management. On the other hand, electric power supply in China proper decreased significantly because of the loss of over one-quarter of prewar generating capacity.

Wartime changes in industrial capacity were not important, except in the iron and cotton textile industries. Despite destruction of facilities at Hankow by retreating Chinese forces, total pig iron capacity was increased by about 50 percent over prewar levels during the occupation. Cotton spinning capacity, however, fell sharply. A full year after Japanese surrender little more than half of the prewar total of nearly 5 million spindles was in operation. An additional 1.4 million spindles were reparable but were not expected to be brought into production for another year. The principal economic effects of eight years of war and invasion appear to have been not so much the destruction of wealth or the diversion of production into new channels as the suspension of the process of industrialization and the disruption of the new national monetary system.

In regaining Manchuria, China would inherit the extensive industrial complex built by the Japanese and a rich agricultural area capable of producing a substantial export surplus. With about one-fourth of the total area and one-ninth the population, Manchuria had come to possess an industry over four times as large as that of China proper, and an electric generating capacity nearly three times as large. The density of Manchuria's rail net was over four times as great as that of China proper.

China's economic gains in resuming administration over Formosa after a lapse of 50 years were smaller than, but similar in nature to those in prospect on V-J Day in Manchuria. Formosa also had traditionally a large export surplus of agricultural products. Japanese industrial achievements were less impressive in Formosa

than in Manchuria, but a wartime boom had given Formosa a substantial productive capacity in aluminum, petroleum products, and electric power, in addition to its older capacity in sugar refining and other food exporting industries. Both agriculture and industry in Formosa, however, had suffered severely during the war. Irrigation works and crops themselves had suffered heavy typhoon damage in 1944 and 1945, and food production had declined for lack of adequate fertilizer. Industry, the electric power distribution system, and harbor facilities were crippled by Allied bombing in the last months of the war.

#### CHINA'S FINANCIAL POSITION

China's foreign exchange holdings at the conclusion of the war with Japan were by far the largest in the history of that country. The principal fiscal asset of the Chinese Government at the end of the war against Japan was its unprecedentedly large reserves of gold and U. S. dollar exchange, which were estimated to total over 900 million United States dollars on December 31, 1945. The accumulation of these reserves had been made possible by virtue of the nondisbursement of a substantial portion of the 500 million dollar American credit authorized in 1942, and by United States Government payments during the war of approximately 400 million dollars to the Chinese Government against advances of Chinese currency and Chinese Government expenditures on behalf of the United States Army. In addition to these reserves of the Chinese Government, private Chinese held very substantial foreign exchange assets, most of which could be used to finance imports into China. Although complete data regarding private Chinese holdings of gold, silver and other foreign exchange assets is not available, it has been estimated conservatively that such holdings on V-J Day amounted to at least several hundred million United States dollars.

Optimism based upon China's very favorable foreign exchange position was tempered by realization of the magnitude of the reconstruction task in some parts of the economy, as well as the necessity of immediate large-scale imports of food and industrial raw material. Pending the re-establishment of normal internal trade, industrial production could be maintained and consumer welfare protected only by the purchase abroad of relatively large quantities of such essential commodities as cotton and grain. Reconstruction was most urgently needed in the field of transportation. Substantial assistance in obtaining the abnormal volume of imports needed in connection with postwar reconstruction and rehabilitation was an-



anticipated from UNRRA. The ultimate soundness of the international financial position of the Chinese Government depended, however, on the speed with which export industries and remittances from Chinese overseas regained their prewar levels.

The Chinese Government also faced financial problems of a largely domestic nature. Inflationary methods of finance had been resorted to during the war as the only means of maintaining resistance against the Japanese in the face of the loss of the richest part of the national territory, the disruption of normal trade, and the disorganization of public administration. Bringing the wartime inflation to a halt was essential to post-war economic recovery, but such action depended upon an expansion of revenues and a reduction in military expenditures. After the war, the Government regained control of the greatest revenue producing areas of China proper, and, of course, looked forward to the Manchurian and Formosan economies as rich sources of revenue. The extensive industrial properties taken over from the Japanese promised to provide the Government with a new and non-inflationary source of funds. No accurate appraisal of the value of these properties is available but, in addition to the major Government properties acquired in Manchuria and Formosa, the Chinese Government fell heir to Japanese cotton mills in China proper with a total of almost two million spindles, representing nearly half of the nation's cotton spinning industry, as well as various other Japanese-owned industrial facilities.

In prospect, the Government's financial position on V-J Day was reasonably bright. The inter-related problems that it faced both domestically and internationally were sizable, but at the same time it possessed assets which appeared capable of making a large contribution to their solution.

#### UNFAVORABLE ELEMENTS

Despite the favorable elements in the negotiations and in the economic situation there was reason during the fall of 1945 for grave concern that the prospects of peace and stability in China were in serious jeopardy. The Chinese Communists had refused to recognize orders issued by the National Government concerning acceptance of surrender of Japanese and Chinese puppet troops and were proceeding, insofar as their capacity permitted, to accept such surrender, to seize enemy matériel, and to occupy enemy territory. The result was a series of increasingly frequent and widespread clashes between the armed forces of the Government and of the Chinese Communist Party. These clashes spread to other areas as well, to such an extent that competent observers had grave doubts as to the possibility of a peaceful settlement.

## GENERAL WEDEMEYER'S REPORTS

On November 14, 1945, Lieutenant General Albert C. Wedemeyer, Commanding General, China Theater, reported to Washington that the National Government was completely unprepared for occupation of Manchuria in the face of Communist opposition. He also reported his recommendation to the Generalissimo that the Chinese should adopt the immediate objective of consolidating the areas south of the great wall and north of the Yangtze and of securing the overland line of communications in that area prior to entry into Manchuria.

Again on November 20, 1945, he reported as follows:

"I have recommended to the Generalissimo that he should concentrate his efforts upon establishing control in north China and upon the prompt execution of political and official reforms designed to remove the practice of corruption by officials and to eliminate prohibitive taxes."

General Wedemeyer also recommended the utilization of foreign executives and technicians, at least during the transition period. He then added:

"Chinese Communist guerrillas and saboteurs can and probably will, if present activities are a reliable indication, restrict and harass the movements of National Government forces to such an extent that the result will be a costly and extended campaign. . . . Logistical support for National Governmental forces and measures for their security in the heart of Manchuria have not been fully appreciated by the Generalissimo or his Chinese staff. These facts plus the lack of appropriate forces and transport have caused me to advise the Generalissimo that he should concentrate his efforts on the recovery of north China and the consolidation of his military and political position there prior to any attempt to occupy Manchuria. I received the impression that he agreed with this concept."

Among General Wedemeyer's conclusions at that time were the following:

"1. The Generalissimo will be able to stabilize the situation in south China provided he accepts the assistance of foreign administrators and technicians and engages in political, economic and social reforms through honest, competent civilian officials.

"2. He will be unable to stabilize the situation in north China for months or perhaps even years unless a satisfactory settlement with the Chinese Communists is achieved and followed up realistically by the kind of action suggested in paragraph 1.



"3. He will be unable to occupy Manchuria for many years unless satisfactory agreements are reached with Russia and the Chinese Communists.

"4. Russia is in effect creating favorable conditions for the realization of Chinese Communist and possibly their own plans in north China and Manchuria. These activities are violations of the recent Sino-Russian Treaty and related agreements.

"5. It appears remote that a satisfactory understanding will be reached between Chinese Communists and the National Government."

The final recommendation of General Wedemeyer was the establishment by the United States, Great Britain and Russia of a trusteeship over Manchuria until such time as the National Government had become sufficiently strong and stabilized to assume responsibility of full control over the area. One of the principal reasons which led General Wedemeyer to the above conclusions was his conviction that National Government abuses and malpractices had already created serious discontent among the local population in areas taken over from the Japanese, and even this soon after the end of the war against Japan had seriously alienated a considerable amount of sympathy for the National Government.

It is against this checkered background that the mission of General Marshall should be considered.

#### GENERAL MARSHALL'S APPOINTMENT AND INSTRUCTIONS

When President Truman announced on November 27, 1945, his acceptance of Ambassador Hurley's resignation, he announced also the appointment of General of the Army George C. Marshall as his Special Representative in China, with the personal rank of Ambassador. In the instructions which he addressed to General Marshall on December 15,<sup>1a</sup> the President asked the General to bring to bear the influence of the United States to the end that the "unification of China by peaceful, democratic methods" might be achieved as soon as possible and concurrently to endeavor to effect a cessation of hostilities, particularly in North China. To assist in the accomplishment of this mission General Marshall was authorized to speak to Generalissimo Chiang Kai-shek and other Chinese leaders "with the utmost frankness" and to state that "a China disunited and torn by civil strife" was not a proper place for American economic assistance in the form of credits or technical assistance nor for American military aid.

<sup>1a</sup> See annexes 61, 62.



## THE PRESIDENT'S POLICY STATEMENT OF DECEMBER 15, 1945

A portion of General Marshall's instructions, in the form of a Presidential statement on United States policy toward China, was released on December 15 for publication the following day.<sup>1b</sup> Stating that a "strong, united, and democratic China" was of the utmost importance to world peace, the President declared that it was "in the most vital interest of the United States and all the United Nations that the people of China overlook no opportunity to adjust their internal differences promptly by methods of peaceful negotiation." He called for a cessation of hostilities in China, but pledged that there would be no American military intervention to influence the Chinese civil fighting, explaining the presence of American troops in North China in terms of the necessity for disarming and evacuating surrendered Japanese troops still on Chinese soil.

President Truman further urged the convening in China of a national conference of the major Chinese political elements to develop a solution to the problems of China which would not only end internal strife but would also bring about unification of the country on terms which would give all major political elements fair and effective representation in the Chinese Government. This obviously meant modification of the Kuomintang's system of "political tutelage" and the broadening of the base of government. The President pointed out that the detailed steps necessary to the achievement of political unity in China must be worked out by the Chinese themselves and disowned any intention of intervening in these matters. He declared, however, that China and all parties and groups in China had a clear responsibility to the other United Nations to eliminate armed civil conflict, which was a threat to world stability and peace.

The President concluded by promising American assistance, as China moved toward peace and unity, in the rehabilitation of the country, in the improvement of the industrial and agrarian economy, and in the establishment of a military organization "capable of discharging China's national and international responsibilities for the maintenance of peace and order."

## THE BEGINNING OF THE MARSHALL MISSION

In the light of these instructions General Marshall undertook the execution of his mission immediately upon his arrival in Chungking. The complex problems in China fell largely under three heads—political, military and economic—but they frequently became so entangled that discussion of them cannot be separated. This was particularly true of the political and military problems, for the two

<sup>1b</sup> For full text see annex 62.

principal Chinese parties to the negotiations in which General Marshall took part, the National Government and the Chinese Communist Party, frequently made military action or inaction a *sine qua non* for a political concession, or vice versa.

The President's Special Representative acted both as an intermediary between Generalissimo Chiang Kai-shek and the representatives of the Chinese Communist Party and as an adviser to or member of certain bodies, or committees, which were established in the effort to reach agreement on China's problems. He also exercised initiative in giving each side impartially and confidentially the benefit of his analysis of the situation as it developed, and in drafting various statements and agreements which he thought might move the negotiations forward.

Throughout his mission General Marshall kept the President and the Secretary of State fully informed of the progress of the negotiations, of his actions in connection with these negotiations and of his estimate of the situation in China. His actions and decisions had the unqualified support and approval of the President and the Secretary of State.

The negotiations themselves were most difficult and most complex. As it turned out General Marshall was often unable to bring the two sides to complete agreement on a set of terms before the situation changed, frequently as a result of what he considered bad faith on one side or the other, and a new set of proposals based on the new situation became the basis of discussion. This chapter largely forms a narrative, therefore, of the constantly shifting situations, proposals, counterproposals, and discussions, starting with the political and military situation which General Marshall found in China upon his arrival. Economic matters concerning Sino-American relations during the period of the Marshall mission, however, have been separated from the rest of this narrative insofar as possible and grouped together toward the end of the chapter.

#### RECAPITULATION OF CHINESE POLITICAL BACKGROUND FOR THE MISSION

Dr. Sun Yat-sen's program for China had envisaged a period of "political tutelage" under the Kuomintang as the necessary preparation for the establishment of constitutional government in China. The Kuomintang had thus been committed to end its one-party control of government and to convene a National Assembly for the purpose of adopting a constitution and forming a new government, and a draft constitution had actually been promulgated by the National Government on May 5, 1936. A National Assembly had been sched-



uled to be convened in November 1937 to adopt the constitution, but the outbreak of hostilities with Japan had resulted in a postponement of this Assembly. Preparations for the convening of the Assembly had continued, however, during the war with Japan and at a meeting of the Kuomintang Central Executive Committee in September 1943, Generalissimo Chiang Kai-shek had indicated that with the establishment of representative institutions the Kuomintang would lose all special privileges and other parties would be equal to it in rights and freedoms. The Generalissimo had also stated on September 13, 1943:

" . . . I am of the opinion that first of all we should clearly recognize that the Chinese Communist problem is a purely political problem and should be solved by political means."

The Central Executive Committee had accordingly passed a resolution providing that within one year after the conclusion of the war the National Government was to convene a National Assembly to adopt and promulgate a constitution. Shortly thereafter, the Generalissimo appointed a committee of 53, including 2 Communist representatives, to lay the groundwork for constitutional government. In May 1944 a Communist representative held preliminary conversations at Sian with two high-ranking National Government representatives and later proceeded to Chungking where further discussions were held for a settlement of the differences between the Government and the Chinese Communists.

In subsequent discussions between the National Government and the Chinese Communist Party at Chungking shortly after V-J Day agreement was reached regarding steps to be taken toward the establishment of a constitutional government. The exact formula was set forth in the Text of the Summary of National Government-Communist Conversations issued at Chungking on October 11, 1945, and referred to above.<sup>2</sup>

This text provided that questions which were not settled during these conversations should be referred to a "Political Consultative Conference."

It will be noted that President Truman's statement of December 15, 1945, was entirely consonant with the publicly stated pledges of the Chinese Government and the Generalissimo regarding a peaceful settlement of the Communist problem and with the agreement reached between that Government and the Chinese Communist Party in October 1945 providing for the convening of the "Political Consultative Conference" to discuss measures looking toward the establishment of

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<sup>2</sup> See chapter III.



a constitutional Government. A provisional list of the delegates to this Conference had been published at Chungking on November 27. On December 31, 1945, the National Government announced that the Generalissimo had decided that the Political Consultative Conference would convene at Chungking on January 10, 1946.

## II. THE AGREEMENTS OF JANUARY AND FEBRUARY 1946

### THE CEASE-FIRE AGREEMENT OF JANUARY 10, 1946

Prior to the convening of the Conference, the National Government presented to the Chinese Communist Party a proposal for the cessation of hostilities, in which it suggested the formation of a committee composed of a representative of the National Government and a representative of the Chinese Communist Party, with General Marshall as Chairman, to discuss the question of the cessation of hostilities and related matters. The Chinese Communist Party having agreed to the formation of this committee, General Chang Chun was appointed as the National Government representative and General Chou En-lai as the Chinese Communist Party representative. This Committee, called the Committee of Three, held its first formal meeting on January 7, 1946.

During the early conversations of General Marshall with National Government leaders and Chinese Communist Party representatives in Chungking the basic distrust between the two groups was apparent. The National Government was convinced that the U.S.S.R. had obstructed the efforts of the National Government to assume control over Manchuria in spite of the provisions of the Sino-Soviet Treaty of August 1945 and that the Chinese Communists were tools of the U.S.S.R. The Chinese Communist Party was suspicious of the Kuo-mintang and believed that its aim was the destruction of the Chinese Communist Party. The Government leaders were unwilling to permit Communist participation in the Government until the Communists had given up their armed forces, while the Communists believed that to do so without guarantees of their legal political status would end in their destruction.

In the light of the statement of American policy toward China, which pointed out that the United States, the United Kingdom, and the U.S.S.R. were committed by various agreements with the Chinese Government to the return of all China, including Manchuria, to Chinese control, General Marshall envisaged a solution which would be in accord with these agreements and which would result in bringing this area under the control of a unified China.

With that end in view, he had informed General Chou En-lai on January 4 that the United States Government was committed to the movement of National Government troops to Manchuria. General Chou expressed his agreement to the inclusion of an exception in the cessation of hostilities agreement to permit the movement of National Government troops into Manchuria and added that the movement of such troops conformed to American policy and to the Sino-Soviet Treaty of August 1945.

The Committee of Three reached an agreement on January 10 for the cessation of hostilities. In accordance with this agreement, both the Generalissimo and Mr. Mao Tse-tung, Chairman of the Chinese Communist Party, issued orders to their respective armed forces to cease hostilities and halt all movements of troops, with certain exceptions which were included in stipulations regarding the cease-fire order and were made public in a press release.<sup>3</sup> These stipulations provided for the movement of National Government troops into and within Manchuria for the purpose of restoring Chinese sovereignty and for the movement of National Government troops south of the Yangtze River in connection with the Government military reorganization plan. The cease-fire order was to be effective at midnight on January 13, thus allowing time for the transmission of the order to commanders in the field. The order further provided for the cessation of destruction of and interference with all lines of communication and for the removal of obstructions placed against or interfering with such lines.

The agreement also provided for the establishment of an Executive Headquarters at Peiping to carry out the agreement for the cessation of hostilities.<sup>4</sup> This headquarters, which began its official functions on January 14, was to consist of three commissioners, one representing the National Government, one representing the Chinese Communist Party, and one representing the United States. The National Government and the Chinese Communist Party were to have equal representation in the operations section of the Executive Headquarters and in the teams to be sent to the field to carry out on the spot the provisions of the cease-fire order and the directives of the headquarters. The necessary instructions and orders agreed upon unanimously by

<sup>3</sup> See annex 63.

<sup>4</sup> See annex 71 for full text of the document establishing the Executive Headquarters and for a memorandum on operations of the Executive Headquarters. American military and naval personnel in China were also charged with certain functions concerning repatriation of Japanese, a task which was fulfilled with the highest degree of effectiveness so that by the end of 1946 a total of almost 3,000,000 Japanese military personnel and civilians had been repatriated to Japan. A memorandum on this operation is also included in annex 71.



the three commissioners were to be issued in the name of the President of the Republic of China. It was made clear that American participation in the headquarters was solely for the purpose of assisting the Chinese members in the implementation of the cease-fire order.

### THE POLITICAL CONSULTATIVE CONFERENCE

The agreement for the cessation of hostilities enabled the Political Consultative Conference (hereafter called the PCC) to convene in an atmosphere of peace. The PCC, which was in session at Chungking from January 10 to 31, 1946, was composed of representatives of the Kuomintang, the Chinese Communist Party, the Democratic League, and the Youth Party and of non-party delegates. It met as a consultative body without any legal authority to enforce its decisions. Morally, all groups represented were obligated to accept the decisions, but legally the PCC resolutions were subject to approval by the central committees or governing bodies of the various parties represented.

At the opening session of the PCC, Generalissimo Chiang Kai-shek announced the decision of the Government to grant immediately certain fundamental democratic rights. They included freedom of speech, assembly, and association; equal legal status for all political parties; the holding of popular elections; and the release of political prisoners. On January 31, the PCC held its final session and released to the press the text of the resolutions agreed upon.<sup>5</sup> These resolutions were divided into five main headings as follows: (1) Government Organization; (2) Program for Peaceful National Reconstruction; (3) Military Problems; (4) Agreement on the National Assembly; and (5) the 1936 Draft Constitution.

In his address to the closing session of the PCC, the Generalissimo made the following statements regarding the PCC resolutions:<sup>6</sup>

"I wish to declare first on behalf of the Government that they will be fully respected and carried out as soon as the prescribed procedures have been completed. I pledge at the same time that I will uphold this program faithfully and will also see to it that all the military and civil subordinates follow it strictly. From now on, I will, whether in the Government or out of it, faithfully and resolutely observe, as a citizen should, all the decisions of this Conference."

In contrast to the Generalissimo's statements, however, there were indications of strong opposition to the PCC resolutions among powerful reactionary groups in the Kuomintang. Minority party reaction to the decisions of the PCC was shown in the issuance of categorical

<sup>5</sup> See annexes 64, 65, 66, 67, 68.

<sup>6</sup> As reported by the Kuomintang Ministry of Information.



statements by the Chinese Communist Party, the Democratic League, and the Youth Party of their intention to carry out the PCC resolutions.

General Marshall did not act as a mediator or participate in the discussions of the Political Consultative Conference. In accordance with the Generalissimo's request, he did, however, have prepared a brief draft of an act for possible promulgation by the National Government which included a bill of rights, a provision for drawing up a constitution to be submitted to the National Assembly in May and a provision for the establishment of an interim coalition government reposing in the Generalissimo power of control as the President of all China prior to the formation of the constitutional government. This draft was presented to the Generalissimo on a confidential basis on January 23.

#### THE PCC RESOLUTIONS

The PCC resolutions provided for convening a National Assembly on May 5, 1946, for the purpose of adopting a constitution and for the formation of a Constitution Draft Committee to draw up a detailed plan for revision of the 1936 Draft Constitution based on the principles agreed upon by the PCC, as well as recommendations of various associations connected with the promotion of constitutionalism in China. This plan was to be submitted to the National Assembly for adoption. The PCC resolutions also provided that, pending the convening of the National Assembly, the Kuomintang would revise the organic law of the National Government to make the State Council the supreme organ of the Government in charge of national affairs. This Council was to be composed of 40 members, who would be chosen by the Generalissimo from Kuomintang and non-Kuomintang members. Half of the Councillors would be members of the Kuomintang and half members of other parties and non-party personnel. The specific allotment of seats of non-Kuomintang Councillors was to be the subject of separate discussion after the adjournment of the PCC. The PCC resolutions regarding the State Council empowered the President to veto any decision of the Council, and such a veto could be overridden only by a three-fifths vote of the Council. General resolutions would require a majority vote of the Councillors present, but any resolutions involving changes in the administrative policy would be required to have a two-thirds vote of the members present for approval. However, a majority vote of the members present would be sufficient to decide whether a resolution involved a change in administrative policy. The PCC resolutions regarding the membership of the State Council and the question of the veto power subsequently played an important part in the negotia-

tions between the Chinese Government and the Chinese Communist Party. The question of the veto power arose in discussions regarding membership in the State Council. The Chinese Communist Party began to advance claims for control of at least 14 seats in the Council among its own members and friendly nominees. With this number the Chinese Communist Party would have sufficient voting strength to exercise a veto to prevent changes in the PCC resolutions.

Under the Program for Peaceful National Reconstruction of the PCC resolutions, the equality and legality of all political parties were recognized and all parties were pledged to recognize the national leadership of President Chiang Kai-shek. The program provided *inter alia* for the maintenance of the *status quo* in liberated areas where the government was under dispute until a settlement should be made by the National Government after its reorganization, a point of considerable importance in later negotiations.

Under the PCC resolutions on military problems, provision was made for reorganization and reduction of the armies and the creation of a national army belonging to the State in which no political parties would be allowed to carry on political activities. It was also provided that the "Three-Man Military Commission" should agree upon practical methods for the reorganization of the Chinese Communist armies at an early date. It was further provided that, when the reorganization of both the National Government and Communist armies should be completed, all armies should again be reorganized into 50 or 60 divisions.

#### THE MILITARY REORGANIZATION AGREEMENT OF FEBRUARY 25, 1946

On January 10 the National Government suggested the formation of a military committee to draw up measures for the reorganization and redistribution of the Chinese armies. Such a committee had already been agreed to by the National Government and the Chinese Communist Party during the negotiations ending in October 1945. The Chinese Communist Party representatives agreed to this proposal and both the Chinese Government and the Chinese Communist Party expressed their approval of General Marshall's participation in this committee as an adviser. This committee, known as the Military Subcommittee, was composed of General Chang Chih-chung as the National Government representative, General Chou En-lai as the Chinese Communist Party representative and General Marshall as adviser.

The Military Subcommittee held its first meeting on February 14, 1946, and on February 25 reached an agreement entitled "Basis for Military Reorganization and for the Integration of the Communist Forces into the National Army." In the press release announcing



the agreement,<sup>7</sup> it was explained that the purpose of the agreement was to facilitate the economic rehabilitation of China and at the same time to furnish a basis for the development of an effective military force capable of safeguarding the security of the nation, including provisions to safeguard the rights of the people from military interference. It was also pointed out that the Executive Headquarters at Peiping would be charged with responsibility for supervising the execution of orders necessary to the implementation of the agreement and that the measures to be decided upon by the Military Subcommittee for the execution of the terms of the agreement would be carried out over a period of 18 months.

The terms of the agreement envisaged the reduction of the National Government armies to 90 divisions at the end of 12 months and the reduction of the Chinese Communist forces to 18 divisions during that same period. A further reduction at the end of the following 6 months provided for 50 National Government divisions and 10 Communist divisions, the total of 60 divisions of not more than 14,000 men each to be formed into 20 armies. The process of integration was provided for initially during the seventh month. The National Government and the Chinese Communist Party were required under the agreement to make provisions for the supply, movement and employment of their respective demobilized personnel, the National Government to assume this responsibility for all demobilized personnel as soon as practicable. For purposes of integration and deployment, China was divided into five general areas as follows: Northeast China, Northwest China, North China, Central China and South China (including Formosa) and a specific number of armies was provided for each area at the end of the 12-month period and again at the end of the full 18-month period. Provision was made for the following distribution of the armed forces at the end of 18 months: Northeast China (Manchuria)—14 National Government divisions and 1 Communist division; Northwest China—9 National Government divisions; North China—11 National Government divisions and 7 Communist divisions; Central China—10 National Government divisions and 2 Communist divisions; and South China (including Formosa)—6 National Government divisions.

In discussions leading to this agreement, General Marshall endeavored to emphasize as strongly as possible the necessity of creating in China a national, nonpolitical military force along the lines of western military tradition, to be used as a democratic army and not as an authoritarian weapon. The agreement reached was based upon the general principle of separating the army from politics and, although

<sup>7</sup> See annex 69.



this idea was not expressly stated in the agreement, the various articles adhered to this general plan. This principle was of the greatest importance in China, where political power in the final analysis was dependent upon the possession of military force and where the military constantly interfered with civil administration or were themselves legally in control of civil administration by appointment to office. In a brief speech at the time of the signing of this agreement General Marshall made the following statement: "This agreement, I think, represents the great hope of China. I can only trust that its pages will not be soiled by a small group of irreconcilables who for a selfish purpose would defeat the Chinese people in their overwhelming desire for peace and prosperity."

The agreement required the National Government to prepare and submit to the Military Subcommittee, within 3 weeks of the promulgation of the agreement, a list of the 90 divisions to be retained and the order of demobilization of units during the first 2 months. Such a list was submitted on March 26. The agreement similarly provided for the preparation and submission to the Committee by the Chinese Communist Party, within 3 weeks of the promulgation of the agreement, of a complete list of all its military units, together with a list of the 18 divisions to be retained and the order of demobilization of units during the first 2 months—a provision with which the Communists never complied. It was further provided that within 6 weeks after the promulgation of this agreement both the National Government and the Chinese Communist Party should furnish to the Committee lists of the units to be demobilized.

Agreement was reached by the Military Subcommittee on February 27, 1946, on a directive<sup>8</sup> to the Executive Headquarters implementing the basic plan for military reorganization and integration of the Communist armies into the National Army. The directive, signed on March 16, 1946, established the Executive Headquarters as the agency for the execution of the basic plan and provided for the formation of a group in the headquarters, composed of National Government, Chinese Communist Party, and United States personnel, to plan and supervise the execution of the plan. The directive also provided for the complete disbandment within 3 months of Chinese puppet units who had served the Japanese and for the establishment of a 12-week basic training program for the National Government and Communist Party divisions to be retained. The directive recommended the establishment of a Demobilized Manpower Commission, which should coordinate its efforts with those of the Government, the Communist

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<sup>8</sup> See annex 70.

Party, civilian agencies, relief organizations, and the Executive Headquarters.<sup>8a</sup>

The conclusion of the agreement for military reorganization marked the third major step in bringing peace to China and in establishing a basis for unification of the country. The cessation of hostilities agreement was designed to bring to a halt actual fighting in order that negotiations for a political and military settlement could be carried on in an atmosphere of peace. The PCC resolutions represented an agreement on the questions of governmental reorganization and the establishment of a constitutional government. The Basis for Military Reorganization similarly provided an agreement on the question of integration of the Communist Party armed forces into the National Army and the reorganization of all armies in China on a democratic base.

It should be noted that the political and military agreements recognized the preponderant strength of the Kuomintang position in the National Government. In the interim State Council, which was to function until the establishment of constitutional government through action of the National Assembly, the Kuomintang was allocated 20 of the 40 seats. The President was empowered to veto any decision of the Council and his veto could be overridden only by a three-fifths vote of the members of the Council. Under the military reorganization plan, the preponderant strength of the National Government was recognized by provision for a National Government superiority of 5 to 1 in relation to the Communist forces, by which at the end of the 18-month reorganization and integration period the National Army would have 50 Government and 10 Communist divisions.

#### CHINESE PUBLIC REACTION

The immediate reaction of the Chinese public to the cessation of hostilities and the announcement of the PCC resolutions was one of enthusiastic approval, tempered by the realization that the implementation of the resolutions would be the acid test by which the sincerity of the two rival parties could be gauged. The indication of strong resentment against the PCC on the part of powerful groups within the Kuomintang and the opposition by a powerful group of National Government Army generals to any reorganization of the armies which would threaten their position were seen as obstacles, on the Kuomintang side, to successful implementation of the resolutions. Disquieting incidents, such as an attack by alleged Kuomintang plain-clothes men on a mass meeting held at Chungking to celebrate the success of the PCC, police interference with minority party delegates to the PCC, and an attack on the Communist Party news-

<sup>8a</sup> See Annex 71.



paper premises at Chungking, all served to strengthen the fears of opposition to the PCC by irreconcilable elements in the Kuomintang.

#### KUOMINTANG ACTION ON THE PCC RESOLUTIONS

The next step in connection with the PCC resolutions of January 31 was that of obtaining legal action by the National Government to approve these resolutions. The Central Executive Committee (hereafter called the CEC) of the Kuomintang met at Chungking from March 1 to 17 for the purpose of passing upon the PCC resolutions. Simultaneously with the CEC sessions, there were also held at Chungking meetings of the PCC Steering Committee and the PCC Constitutional Reviewing Committee, in which discussions were held of points which the CEC reportedly wished to have revised. Although the CEC announced at the end of its sessions that it had approved the PCC resolutions *in toto*,<sup>9</sup> there were indications that approval had been hedged by reservations and that irreconcilable elements within the Kuomintang were endeavoring to sabotage the PCC program. Their efforts were reportedly directed toward revisions of the principles approved by the PCC as the basis for revising the Draft Constitution and toward obtaining close adherence to the May 1936 Draft Constitution, on which the Kuomintang had originally insisted in the PCC sessions.

Discussions regarding the PCC resolutions continued in the PCC Steering Committee after the adjournment of the Kuomintang CEC on March 17. During this period the Communist Party and Democratic League representatives maintained the general position that the PCC resolutions had been agreed upon by duly authorized representatives of all parties and indicated that they would oppose any major changes in the resolutions. The Communist Party and Democratic League, therefore, refused to nominate members to the State Council for participation in a reorganized government until the Kuomintang should publish a statement of any revisions of the PCC resolutions agreed upon and of a definite commitment by the Kuomintang to implement the PCC program as revised. In the meantime, the Communist Party postponed its Central Committee meeting, originally scheduled for March 31 for the purpose of passing upon the PCC resolutions. Under these circumstances the PCC Constitutional Reviewing Committee suspended its work upon preparation of a revised constitution to submit to the National Assembly, still scheduled to meet on May 5, but later postponed and not convened until November.

<sup>9</sup> See annex 72.



## GENERAL MARSHALL'S RECALL FOR CONSULTATION

Following the signing of the military reorganization agreement General Marshall had recommended to President Truman that he be recalled to Washington for a brief visit. He felt that he should report to the President on the situation in China and he was particularly anxious to take up the question of the transfer of surplus property and shipping and the problem of loans to China. He also wished to make a personal presentation of the situation in China regarding UNRRA and famine conditions. He was of the opinion that he should make a brief visit to obtain financial and economic facilities to aid China and return to China in time to assist in adjusting differences which were certain to arise over the major problems connected with the agreements reached. It was his opinion that steps had to be taken to assist China and its people in the increasingly serious economic situation and to facilitate the efforts being made toward peace and unity in China and toward the establishment of a unified defense force. General Marshall felt that Chinese political and military unity could only be consolidated and made lasting through the rehabilitation of the country and the permanent general improvement of economic conditions. President Truman approved the recommendation and formally recalled him to Washington for these purposes. He accordingly departed for Washington on March 11, 1946.

## III. THE MANCHURIAN CRISIS

### FIELD TEAMS FOR MANCHURIA

The cease-fire agreement of January 10, 1946, made no mention of any exemption of any part of China from its provisions, except in regard to the movement of troops, and there was no implication or indication in the meetings of the Committee of Three that Manchuria was not included within the scope of the cessation of hostilities order. General Marshall felt very strongly that the authority of the Executive Headquarters in Manchuria should be asserted in order to avoid possible future clashes and difficulties between the two opposing Chinese forces if the Russian troops should withdraw from Manchuria. The matter was complicated by the continued delay in the withdrawal of Russian troops, resulting in suspicion on the part of the National Government of Russian intentions and aims in Manchuria and in the consequent inability of the National Government to assume control in that area.

With these circumstances in mind and as a result of reports of fighting at Yingkow, a port in south Manchuria, General Marshall pro-

posed on January 24, 1946, that an Executive Headquarters field team be sent immediately to Yingkow and that in the event of future incidents of this kind similar action be taken.<sup>10</sup> The National Government was unwilling to agree to this proposal, although the Chinese Communist Party gave its approval. On February 20 General Marshall again, but without success, proposed that field teams be sent to Manchuria, pointing out the need of such teams both in stopping possible conflicts and in establishing a basis for the demobilization of the armies under the plan for military reorganization and integration. While the Chinese Communist Party acquiesced in this proposal, the National Government remained adamant in spite of a deterioration of the situation in Manchuria. At this stage the National Government seemed determined to incur no restraints on its freedom of action in Manchuria and appeared bent on a policy of complete military occupation of the area and elimination of the Chinese Communist forces if they were encountered, even though it did not have the military capability of achieving these objectives.

It was not until March 11, the day of General Marshall's departure for Washington, that the Generalissimo finally agreed to the entry of Executive Headquarters field teams into Manchuria, but with numerous conditions stipulated, so that agreement on a directive for the entry of the teams into Manchuria was not reached until March 27.<sup>11</sup> This directive was not, however, sufficiently broad to enable the teams to bring about a cessation of the fighting, which meanwhile was developing into a dangerous situation for the National Government forces.

In addition to this difficulty, there was a justified complaint by the Chinese Communists that the National Government commander at Canton had violated the terms of the cessation of hostilities order by refusing to recognize the authority of the Executive Headquarters in his area of command, and that the Supreme Headquarters of the National Government armies at Nanking had failed to carry out the specific stipulation of the cease-fire order to report all movements of the National Government troops to the Executive Headquarters at Peiping. There had been, of course, a number of minor infractions of the cease-fire order by subordinate commanders on both sides. There was also a difficult problem in the north Hupeh-south Honan area where about 60,000 Communist troops, encircled by Government forces, were having difficulty in obtaining food supplies.

The extended delay in the sending of teams to Manchuria, caused first by the National Government's refusal to give its approval for such

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<sup>10</sup> See annex 73.

<sup>11</sup> See annex 74.



action and later by the inability of the two Chinese representatives to agree on a suitable directive for the teams, had already resulted in a serious situation. The Chinese Communist Party in Manchuria was steadily extending the area of its control. The Russian withdrawal from Manchuria, originally scheduled to be completed by December 3, 1945, had been postponed until February 1, 1946, in accordance with an agreement between the Chinese and Soviet Governments. In early March, however, the Chinese Government formally requested the withdrawal of the Russian forces from Manchuria. Subsequent to this request, the Soviet Government agreed to the progressive and complete withdrawal of its armies beginning on April 6 and ending on April 29. When the Russian troops did withdraw toward the north, the National Government found itself with extended lines of communication and limited railroad rolling stock. Although it had approximately 137,000 troops in Manchuria and the adjoining areas of Jehol Province by mid-March, these were insufficient to move into all the areas evacuated by the Russian armies in time to prevent their occupation by the Chinese Communists. The Chinese Communist forces were moving both into areas from which Russian troops were withdrawing and into the hinterland between the lines of communication where there had been no occupation forces. The movement of National Government troops into and within Manchuria for the purpose of restoring Chinese sovereignty had been provided for in the cease-fire agreement. The entry of the Chinese Government forces had, however, been seriously impeded by the Russian refusal to permit their use of Dairen as the port of entry and their continued advance subsequent to their entry had been blocked by the delay in the Russian withdrawal. This delay also had the effect of giving the Chinese Communists time to build up their forces in Manchuria, which had apparently been reinforced by the movement of hastily organized or reinforced units from Chahar and Jehol Provinces. While these movements had begun in August and September 1945, there was evidence of the unauthorized continuation of the movement after January 13, 1946. Chinese Communist political infiltration was also facilitated by the delayed Russian withdrawal. In addition, the Chinese Communists were enabled to take over and put into use among their troops stores of weapons and military supplies possessed by the Japanese at the time of their surrender and made available directly or indirectly by the Russians.

Further delay and increased distrust between the National Government and the Chinese Communists had resulted from the actions of the National Government commander in Manchuria in seeking to establish military control in the rural areas removed from the main



lines of communication, there being no Executive Headquarters field teams to moderate or regulate the procedure where National Government and Chinese Communist forces were in contact. These tactics had brought him in violent conflict with Chinese Communist forces in the hinterland, who were thus in a position to level the accusation that his chief aim was to eliminate their forces rather than to restore Chinese sovereignty in Manchuria.

This situation made a solution of the political impasse immeasurably more difficult, as it created considerable misgivings among the Chinese with regard to the relationship of the Chinese Communists to the Soviet Union and strengthened the position of irreconcilable elements within the Kuomintang, which would have been opposed to the political solution offered by the PCC resolutions under any circumstances. The situation in Manchuria, however, presented them with a plausible excuse for resisting any limitation of Kuomintang governmental authority under such circumstances. Chinese Communist resentment and suspicions, in turn, were aroused by the obvious intention of the National Government to assume complete military and political control in Manchuria through new administrative appointees for Manchurian posts from among the most anti-Communist elements in the Kuomintang.

In spite of the deterioration in the general situation, agreement was reached in the PCC Steering Committee on April 1 in regard to the National Assembly. Following this agreement, however, subsequent meetings of the PCC Steering Committee ended in a virtual stalemate and, with the worsening of the situation in Manchuria, it became apparent that no real settlement of governmental and constitutional questions in China could be reached so long as the Manchurian problem remained unsolved. This meant an indefinite postponement of the National Assembly, originally scheduled for May 5. Matters were further complicated by the continued refusal of the Chinese Communist Party to submit a complete list of its military units in accordance with the Military Reorganization Agreement of February 25.

In spite of agreement authorizing the entry of Executive Headquarters field teams into Manchuria, the National Government offered obstructions to the functioning of the teams, first by the refusal of the Commanding General in Manchuria to permit the teams to enter Manchuria and later by the refusal of the National Government members of the teams to take any action on the basis that they had no authority. It was not until April 8 that the field teams proceeded to areas of conflict in Manchuria, where the situation was complicated by developments connected with the Russian withdrawal. Subsequent to their withdrawal from Mukden, for example, the Russian military authorities refused to approve the National Government's use of the rail line

north toward Changchun for the transportation of Chinese troops, alleging that it was prohibited by the terms of the Sino-Soviet Treaty of August 1945. It was also reported that the Russian authorities had rejected a request by the Chinese Government for the retention of small Russian garrisons in the points then being evacuated by Russian troops until the National Government's troops should arrive to take over sovereignty at such places.

Another phase of the Manchurian situation, one which was the subject of frequent propaganda attacks by the Chinese Communist Party, was the transportation of National Government troops by American facilities. On March 31 the Chinese Communists protested the further transportation of Chinese Government armies into Manchuria by American vessels on the ground that the military reorganization plan of February 25 restricted the number of Government troops in Manchuria to 5 armies. It was pointed out to General Chou En-lai that the limitation of Government troops in Manchuria, set forth in the military reorganization plan, was not to be effective until the end of 12 months and that the movement of National Government armies into Manchuria had been authorized by the cessation of hostilities order of January 10.

#### CHINESE COMMUNIST OCCUPATION OF CHANGCHUN

On April 15, 1946, the day after the withdrawal of Russian troops from Changchun, the Chinese Communist forces attacked the city, and occupied it on April 18. This action was a flagrant violation of the cessation of hostilities order and an act which was to have serious consequences. It made the victorious Chinese Communist generals in Manchuria overconfident and less amenable to compromise, but even more disastrous was the effect upon the National Government. It greatly strengthened the hand of the ultra-reactionary groups in the Government, which were then in a position to say that the Communists had demonstrated that they never intended to carry out their agreements.

At the time of General Marshall's return to China on April 18, the impasse was complete, except that the Chinese Communists were willing to submit the future military dispositions and local political reorganization to negotiations if the fighting were terminated. The National Government declined such compromises, on the grounds that the cessation of hostilities order clearly gave National Government troops the right to proceed anywhere in Manchuria necessary to establish sovereignty, and stated that negotiations regarding political questions would be considered only after sovereignty had been established along the railway mentioned in the Sino-Soviet Treaty of August



1945. The Government was militarily powerless, however, to enforce such demands. General Marshall submitted a proposal to the Generalissimo in keeping with what he believed to be the Generalissimo's view that the Government could not and would not advance farther north, but discovered that the Generalissimo had in mind the use of force to occupy Changchun and overpower the Chinese Communist troops in that region.

At the beginning of May the Generalissimo finally came to the point of proposing the same conditions for a settlement of the Manchurian problems that the Chinese Communists had actually proposed about six weeks earlier, before the Communists had captured Changchun. It was also demanded that Chinese Communist forces evacuate Changchun and permit Government troops to occupy it, indicating that following the occupation of Changchun negotiations would begin regarding military dispositions and political reorganization.

The successful Chinese Communist commanders in the Changchun region, however, had been strengthened by their acquisition of Japanese military equipment and stores, including medium artillery and tanks, while the National Government's military position grew weaker as its forces advanced, owing to the great distances over which its troops had to move in proceeding northward. The Chinese Communists therefore did not accept the Government's terms and General Chou En-lai urged General Marshall to withdraw shipping support from the National Government armies in order to force the hand of the Generalissimo. The Generalissimo's advisers were urging a policy of force which they were not capable of carrying out, even with American logistical support and the presence of United States Marines in the North China ports of Tsingtao and Tientsin and up the railway line toward the port of Chinghuangtao, from which the coal essential for the industries of the lower Yangtze Valley area was shipped south.

#### GENERAL MARSHALL'S APPRAISAL OF THE SITUATION

In conversations with National Government leaders General Marshall endeavored to emphasize the seriousness of the situation. He pointed out that many of the existing difficulties could have been avoided earlier by the National Government but that the situation was now reversed; that there was a complete lack of faith and a feeling of distrust on both sides and that each side saw behind all proposals from the other an evil motive; that the National Government had blocked the sending of field teams into Manchuria which might have been able to control the situation; that while the Communists said that the cessation of hostilities order of January 10 applied to all of



China, the National Government resisted its application to Manchuria; that when the National Government troops moved into Manchuria they attempted to destroy the Chinese Communist forces in the hinterland; and that the Generalissimo's military advisers had shown very poor judgment. He continued that in many instances the National Government authorities had offered opportunities to the Communist Party to make accusations against their good faith: (1) the situation north of Hankow, where Communist troops were surrounded by large Government concentrations; (2) the movement of Government troops toward Chihfeng, Jehol Province, under orders issued by the National Government military headquarters at Chungking in violation of the cease-fire order; (3) the refusal of the Commanding General at Canton to recognize the existence of Communist troops in that area as well as the orders of the Executive Headquarters and the National Government at Chungking regarding Executive Headquarters' investigation of the situation in this area; (4) the failure of the National Government Army Headquarters to submit daily reports of its troop movements south of the Yangtze River, as was clearly required by the cessation of hostilities order; (5) the search of homes of Chinese Communist Party personnel and closure of Chinese Communist newspaper offices at Peiping; (6) the "buzzing" of the airfield at Yen-an by National Government planes; and (7) the detention of Chinese Communist field team personnel at the airfield at Mukden. General Marshall characterized these acts as stupid actions of no benefit to the National Government, which not only served as ammunition to the Chinese Communists, but, what was far more serious, stimulated their suspicion of Government intentions. He said that the Kuomintang had had an opportunity to have peace in Manchuria but had not utilized the opportunity, and concluded that the Chinese Communists were now taking advantage of the existing situation and were becoming stronger daily, thus placing the National Government in a very dangerous military position with over-extended lines and a constantly increasing dispersion of forces.

The reaction of the Chinese Communists was revealed by their desire to change the ratio of military strength in Manchuria. General Chou En-lai informed General Marshall that the Communist Party wished to revise the ratio of 1 Communist division to 14 Government divisions in Manchuria provided for in the military reorganization agreement at the end of 18 months, and was adamantly opposed to the movement of additional Government troops in Manchuria. General Marshall explained that, when the United States had completed the movement of the seven National Government armies into Manchuria which it was committed to transport to that area, a total of 228,000

Government troops would have been moved by American facilities. However, the total National Government strength at the end of 12 months authorized for Manchuria in the military reorganization agreement would be approximately 240,000 men.

In further discussions with General Chou En-lai, General Marshall stated that in his opinion the fundamental difference between the positions of the two sides lay in the question of sovereignty in Manchuria; that sovereignty implied control and control could not be held by the National Government unless it occupied Changchun; and that the Generalissimo had made a significant concession to the Chinese Communists by his willingness to hold open for negotiation problems relating to the remainder of Manchuria provided the Communist forces evacuated Changchun. He further stated that he had done his best in an effort to negotiate this critical problem but that the matter had virtually passed out of his hands. He added that he did not see that he could accomplish anything more through mediation, since at that time his position in endeavoring to persuade the Government to take various actions had been heavily compromised by the Communist attack on Changchun.

#### GENERAL MARSHALL'S TEMPORARY WITHDRAWAL FROM MEDIATION

At this point General Marshall withdrew from formal mediation between the two parties for a settlement of the Manchurian problem. He did, however, continue to hold separate conferences with representatives of the two sides and to act as a channel of communication between them. The diminishing effectiveness of the Executive Headquarters field teams was a matter of particular concern at this time. Executive Headquarters reports during this period revealed the complete opposition of the Communist members, at the operations level in the Headquarters and in the field teams, toward any common sense action which should be taken by the teams. United States Army officers had originally been impressed by the high degree of cooperation by the Communists, but the Communist tactics of blocking action had lowered American confidence in their sincerity. In view of these difficulties the Committee of Three discussed the matter and on May 14 reached agreement on a document designed to ensure more prompt investigation of reported violations of the cessation of hostilities order.<sup>12</sup>

During his discussions with National Government leaders, General Marshall continued to point out that the time element was of great importance. The situation in North China was becoming more serious

<sup>12</sup> See annex 75.



with two major irritants affecting the situation there—the unsettled question of the destruction of railway fortifications and the failure of the National Government to report its routine troop movements to the Executive Headquarters. The situation in North China was, of course, dominated by the outcome in Manchuria, and continued failure to find a solution in Manchuria would probably make the Executive Headquarters completely ineffective. A solution was made more difficult by the repeated insistence of the Generalissimo in discussions with General Marshall that he would not sign or agree to any settlement that did not provide for evacuation of Changchun by the Communists and its occupation by the Government and that he would accept nothing less than complete National Government sovereignty in Manchuria. Under these circumstances General Marshall considered it unwise for him to re-enter the negotiations in the capacity of mediator, since there was no basis for agreement by the Chinese Communist Party and he did not wish to be placed in a position where he would have no power to avert an otherwise certain stalemate.

#### SUGGESTED COMPROMISE SOLUTION

At the request of the Generalissimo for his views General Marshall suggested that a compromise solution of the Manchurian issues be reached which would provide for Communist withdrawal from Changchun and the establishment of an advance echelon of the Executive Headquarters at that city as a basis for terminating the fighting preliminary to entering into negotiations. This solution would also envisage the occupation of Changchun by the Government troops within a maximum time of six months, preferably much sooner. General Marshall's conclusions as communicated to the Generalissimo, were as follows:

The Government's military position was weak in Manchuria and the Communists had the strategical advantage there. The psychological effect of a compromise on the part of the Government to achieve peace would not injure its prestige but would indicate that the Generalissimo was making every effort to promote peace. The proposal to utilize the Executive Headquarters in Changchun would bolster the conviction that the Generalissimo was striving for peace. Finally some compromise must be reached as quickly as possible or China would be faced with a chaotic situation, militarily, financially and economically.

General Marshall suggested the same general solution on May 13 to General Chou En-lai, who said that he would transmit the proposal to Yen-an. General Marshall emphasized that, unless he could be reasonably certain of the position of the Communist Party on military



and political issues, it would be impossible for him to resume the role of mediator and that he could not again place himself in the position of being a party to an agreement which included provision for negotiations regarding vital or fundamental differences unless he had reasonable assurance of a favorable outcome. The Chinese Communist reply to this proposal indicated apprehension that the Government might raise the question of other cities, such as Harbin, once it occupied Changchun. The Communists also stated that they desired to have five divisions in Manchuria instead of the one division authorized in the military reorganization agreement.

Daily discussions between the Generalissimo and General Marshall were held at this time regarding the detailed terms for a military settlement, the redistribution of troops as a condition precedent to the issuance of a cease-fire order, and tentative arrangements whereby the Communists would voluntarily evacuate Changchun and an advance section of the Executive Headquarters would assume control of the city, pending a further settlement of problems relating to Changchun and the areas north of that city. On May 22 the Generalissimo informed General Marshall that he had not heard from his military commanders in Manchuria for three days and that he feared that following their capture of Ssupingchieh on May 19 (after fighting lasting over a month) they were advancing toward Changchun. The Generalissimo expressed agreement with General Marshall's view that occupation of Changchun at a time when the basis of an agreement with the Communists was practically completed would be inadvisable and said that he was leaving for Mukden on May 24 in order to keep control of the situation. General Marshall pointed out the danger of a delay and expressed the hope that the Generalissimo would return as soon as possible in order that the negotiations could be carried to completion. Generalissimo Chiang Kai-shek departed for Mukden on May 23, his departure on this 11-day trip being the first of a chain of events which were almost completely disastrous in their effect on the situation. The fact that the Generalissimo requested and received the use of General Marshall's official airplane for the trip served to heighten the public impression of General Marshall's close connection with the trip and to add to the embarrassment that later developed.

On May 23 General Marshall conveyed to General Chou En-lai three points set forth by the Generalissimo prior to his departure as conditions precedent to any general agreement: (1) The Chinese Communist Party must make every effort to facilitate the restoration of communications; (2) in any agreement regarding Manchurian issues, provision must be made for carrying out the military demobilization

and reorganization plan within specified dates; and (3) the Generalissimo would not commit himself to further agreements without an understanding that when field teams or high staff groups reached an impasse, the final decision would be left to the American member. General Marshall also asked General Chou En-lai whether the Communist Party would agree to the proposal for the evacuation of Changchun by the Communist troops, the entry into Changchun of the advance section of the Executive Headquarters, and the cessation of further advances of Government troops.

General Chou En-lai stated that the Communist Party would agree to the three proposals suggested by General Marshall but that the Generalissimo's three conditions were new. He added that he would endeavor to solve the communications problem with the National Government representative and that he had no objection to the second condition. With respect to authority for decision by American members, he said that this would have to be discussed with his associates.

#### NATIONAL GOVERNMENT CAPTURE OF CHANGCHUN

On May 23 the National Government's forces entered Changchun, following a Communist withdrawal from that city and little or no opposition from the Communist forces after the Government capture of Ssuningchieh on May 19. The absence of the Generalissimo from Nanking and the difficulty of communication with him by General Marshall made for an extremely unsatisfactory situation at a most critical moment. The Generalissimo's presence in Mukden at the time of the capture of Changchun conveyed the impression of a journey timed to coincide with a previously planned military triumph, and public pronouncements by the Generalissimo in Mukden tended to heighten this impression. In spite of General Marshall's appeals by radio for the issuance of an order for the cessation of offensive operations, the Generalissimo took no action toward that end, although his earlier insistence had been on the evacuation of Changchun and its occupation by Government forces as a precedent to further negotiation and the issuance of a cease-fire order. To make matters more serious, the Government troops, after their occupation of Changchun, continued to advance north along the rail line toward Harbin and toward Kirin to the east, and the result was to increase Communist suspicion and distrust of Government promises and to place General Marshall's impartial position as a possible mediator in a questionable light insofar as the Communists were concerned. The positions were now reversed. Where formerly difficulties arose from the Communist attack on Changchun in open violation of the cease-fire order and the consequent stronger stand taken by the Chinese Communist generals in Man-



churia, the new situation played directly into the hands of the National Government military commanders in Manchuria, who now felt certain that they could settle the problem by force and were therefore disinclined to compromise with the Communists.

#### GENERALISSIMO CHIANG'S PROPOSALS OF MAY 24, 1946

On May 24 the Generalissimo forwarded to General Marshall from Mukden his formal conditions for the restoration of peace. He demanded the execution of the cessation of hostilities agreement of January 10, which specifically related to freedom of action for the Nanking Government in taking over sovereignty in Manchuria, and of the agreement for military reorganization of February 25. The Generalissimo placed first importance on a Communist demonstration of good faith by permitting National Government agencies to restore communications in North China and stipulated again that in the Executive Headquarters and its field teams American members should cast the deciding vote. He also asked General Marshall whether he would guarantee Communist good faith in carrying out agreements. No mention was made by the Generalissimo of his intention or willingness to issue an order halting troop movements or to agree to the establishment of an advance section of the Executive Headquarters at Changchun, both of which had been proposed by General Marshall at the time of the Generalissimo's departure for Mukden with the suggestion that the Generalissimo might reach a decision while in Mukden and inform General Marshall.

General Marshall, therefore, dispatched a message to the Generalissimo at Mukden requesting explanatory details regarding his general statements, proposing the immediate movement of a section of the Executive Headquarters to Changchun and urging him to issue an order immediately directing the cessation of attacks, pursuits, or advances while the details of a truce were being arranged. General Marshall urged him to avoid the painful results of previous mistakes in forging ahead in Manchuria without granting permission for the presence of field teams to prevent unnecessary skirmishing and the more recent unfortunate results of the attitude of the belligerent Chinese Communist commanders at Changchun. General Marshall also asked for an explanation of the meaning of the Generalissimo's use of the word "guarantee" in reference to General Marshall's role.

On May 28 the Generalissimo again communicated with General Marshall, repeating the terms previously set forth but agreeing to a qualification General Marshall had suggested regarding the power of decision of Americans in the Executive Headquarters and its field teams. The Generalissimo also stated that, with respect to the



method of recovering sovereignty in Manchuria, the National Government could not abandon the taking over of administration in any area, but might agree to send forward, after military advances had ceased, only administrative officials and such military and police forces as would be absolutely necessary for the maintenance of local order and communications. He explained that, by use of the word "guarantee," he meant that General Marshall would set time limits for putting into effect all agreements which General Marshall had signed and would assume the responsibility of supervision over the strict observance of such agreements on the part of the Chinese Communists.

Not having received this second message from the Generalissimo, on May 29 General Marshall sent a further message to the Generalissimo at Mukden, informing him that the continued advances of the National Government troops in Manchuria in the absence of any action to terminate the fighting, other than the terms indicated by him in his first message from Mukden, was making General Marshall's services as a possible mediator extremely difficult and might soon make them virtually impossible. No reply having been received to this message,<sup>13</sup> General Marshall dispatched an additional message to the Generalissimo on May 31 at Peiping, where the latter had just arrived, repeating the substance of his previous message and stating that a point was being reached where the integrity of his position was open to serious question. General Marshall again requested the Generalissimo, therefore, to issue immediately an order terminating advances, attacks or pursuits by the National Government troops and to authorize the immediate departure of an advance section of the Executive Headquarters to Changchun.

In a message of June 1 from Peiping the Generalissimo informed General Marshall that in all decisions he had kept in mind the difficulty of General Marshall's position and was doing everything in his power to facilitate and assure the success of his work. He said that he was prepared to agree to the proposal to send an advance section of the Executive Headquarters to Changchun in the event of his not being able immediately to issue orders to National Government troops to terminate their advance.

During this period General Marshall continued to have conferences with General Chou En-lai, National Government leaders, and representatives of the minority parties. These representatives had offered certain proposals for settlement of the Manchurian problem, but they were not approved by either the National Government or the Chinese Communist Party.

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<sup>13</sup> It later developed that General Marshall's message of May 29 had missed the Generalissimo in Mukden and was long delayed in delivery.

## ARRANGEMENTS FOR A TRUCE

On June 3 the Generalissimo returned to Nanking. A discussion of the situation with General Marshall indicated that a misunderstanding on the part of the Generalissimo caused by mistranslation of General Marshall's message had prevented the immediate establishment of an advance section of the Executive Headquarters in Changchun. General Marshall, therefore, immediately directed its establishment. The Generalissimo agreed to issue an order to his armies in Manchuria to cease advances, attacks or pursuits—in other words, aggressive action—for a period of ten days to afford the Communists an opportunity to prove their sincerity by completing negotiations with the National Government during that period on the following points: (1) detailed arrangements to govern a complete termination of hostilities in Manchuria; (2) definite detailed arrangements, with time limits, for the complete resumption of communications in North China; and (3) a basis for carrying out without further delay the agreement for military reorganization of February 25.

The Generalissimo first stipulated one week in which to complete these negotiations but finally agreed to a period of 10 days. He informed General Marshall that this would be his final effort at doing business with the Communists, that the present indeterminate situation with communications blocked, coal barely obtainable in sufficient quantities, and cities starving, could not be endured economically or otherwise, and that all-out war would be preferable.

When the Generalissimo's terms were presented to General Chou En-lai by General Marshall, General Chou immediately asked for an extension of the 10 days to one month but finally reduced his request to 15 days on the ground that there were many complicated plans to be agreed to and General Chou would have to fly to Yen-an at least once for conferences with Chinese Communist leaders.

On June 6 the Generalissimo and the Chinese Communist Party issued separate announcements of orders halting advances, attacks, or pursuits by their troops in Manchuria for a 15-day period beginning at noon on June 7.<sup>13a</sup> They also announced that during this period agreements were to be reached regarding arrangements for the complete termination of hostilities in Manchuria, complete resumption of communications in China, and execution without delay of the agreement for military reorganization of February 25.

Constant negotiations followed the promulgation of these orders. General Chou En-lai consulted the Communist leaders in Yen-an and returned to Nanking for discussions. An agreement for the resump-

<sup>13a</sup> See annex 76.



tion of communications was reached after detailed discussions.<sup>14</sup> Little trouble was anticipated in reaching agreement on the detailed arrangements for formal termination of hostilities in Manchuria. The great difficulties to be resolved related to demobilization, reorganization, and particularly redistribution of troops, especially in Manchuria and Shantung Province. General Marshall's problems during this period also related to sporadic but violent fighting in various localities, mostly in North China, which could not be halted on short notice, since many of the actions had evidently been planned and ordered a week or more in advance.

The rather virulent Communist propaganda attacks against the United States and the alleged support by General Marshall of the National Government in the fighting at this time were due to a continuation of an effort (1) to arouse American opposition to any military representation in China and (2) to offset in the United States the effect of the Generalissimo's proposal to give American officers the deciding vote in case of disagreements. The fact that just as an agreement seemed to be on the verge of being reached the Generalissimo remained absent in Mukden and Peiping for a considerable period while his armies exploited their successful action south of Changchun aroused great suspicion against his good faith and particularly against the impartiality of General Marshall's attitude, since General Marshall had advanced proposals to the Chinese Communists for Communist evacuation of Changchun and the cessation of further advances by National Government troops which the Communists had accepted.

#### NEGOTIATIONS DURING THE TRUCE PERIOD

Negotiations during the truce period proceeded very slowly, due to the reluctance of either side to commit itself in advance of the other regarding reorganization and particularly redistribution of troops. Fighting in Shantung Province, arising from a Communist offensive at the beginning of the truce period and lasting for about a week, proved to be a very disturbing factor, causing increased bitterness and unwillingness to make concessions.

Several members of the PCC asked General Marshall to suggest the convening of the PCC Steering Committee at this time to work simultaneously on political problems while the Committee of Three handled the military problems. General Marshall informed them that this did not come within the scope of his authority. The Generalissimo had often said that he would not negotiate on political problems

<sup>14</sup> See annex 77.



until he had occupied Manchuria. He had, however, later said that after Government occupation of Changchun he would be prepared to negotiate both political and military questions. General Chou En-lai indicated that it would be preferable to omit discussion of political matters and to preserve the *status quo* in the various areas. He pointed out to General Marshall that, although the latter had been reluctant to accept the Generalissimo's proposal that the Committee of Three be empowered to solve administrative problems, he felt that this matter should be given further consideration. He added that, since General Marshall did not wish to be involved in political decisions, the problem could be solved by action to be taken by the reorganized Government.

On June 17 the Generalissimo indicated to General Marshall, for transmission to General Chou En-lai, the nature of his demands. The National Government proposals required the evacuation of Chinese Communist forces from Jehol and Chahar Provinces before September 1, 1946; the occupation by Government forces of Chefoo and Weihai-wai in Shantung Province; the reinforcement of Tsingtao with one National Government army to permit the withdrawal of the United States Marines stationed at that city; the evacuation by the Chinese Communists before July 1, 1946, of all localities in Shantung Province forcibly occupied by Communist troops after noon of June 7, 1946; the immediate occupation of these localities by Government garrisons; and the reinforcement of the Tientsin region by one Government army, commencing September 1, 1946, to permit the withdrawal of the United States Marine forces in that area. With respect to Manchuria, the National Government proposals provided for Government occupation of various points then held by Communist forces, such as Harbin, Antung, Tunghwa, Mutankiang, and Paicheng.

General Chou En-lai, after preliminary study of these proposals, informed General Marshall that they were entirely too demanding to admit of acceptance by the Chinese Communist Party. He stated that, except for the restoration of the *status quo* in Shantung Province prior to June 7, none of the points could be considered, and pointed out that the date of June 7 should be applied to Manchuria only, in accordance with the orders issued by both sides halting advances, attacks or pursuits by their troops in Manchuria, beginning on that date, while the restoration of original positions in China proper should be based on January 13, in accordance with the cessation of hostilities order of January 10. General Marshall also discussed the situation with the Generalissimo and told him that there seemed to be no likelihood that the Chinese Communists would accept his terms without considerable modification. General Marshall had suggested to General Chou En-lai that he fly to Yen-an to consult with the leaders of his

party, but after General Chou held a conference with Nationalist Government officials he stated that nothing had occurred in this conference to justify a trip to Yen-an.

The principal stumbling block presented by the National Government proposals did not appear to be in regard to readjustments in Manchuria. Communist resentment was more aroused by the National Government stipulations regarding North China, which required Communist evacuation of provinces and cities then under their occupation and subsequent entry of Government troops into these areas.

The negotiations had again reached an impasse, and there remained only a few days before the truce period would expire. The situation was extremely critical and had not been helped throughout by the belief, freely expressed by some of the National Government military officers and politicians, that only a policy of force would satisfy the situation and that the Chinese Communists could be quickly crushed. General Marshall considered the latter view a gross underestimate of the possibilities, as a long and terrible conflict would be unavoidable, and conveyed his views to the Generalissimo on this subject.

At the suggestion of General Marshall, the Generalissimo agreed to extend the truce period until noon of June 30 for the purpose of permitting further time to negotiate matters referred to in his original 15-day truce order. At the same time the Generalissimo presented two additional terms: (1) The Communists were to withdraw from the Tsinan-Tsingtao Railway before August 1, 1946, and (2) the procedure of unanimous vote in the Committee of Three and the Executive Headquarters was to be revised before June 30, 1946.

Negotiations during the extended truce period proceeded in formal meetings of the Committee of Three with some prospect of success. These meetings marked the formal re-entry of General Marshall into the negotiations as mediator. The Chinese Communists made concessions in granting the deciding vote to Americans on teams and in Executive Headquarters regarding matters pertaining to cessation of hostilities procedures, interpretation of agreements, and their execution. This did not apply, however, to the Committee of Three, since General Marshall thought that the United States Government should not bear the heavy responsibility through his actions in regard to matters of great importance beyond the interpretation of agreements.

It was difficult to predict the rate of progress and eventual outcome because of the effect of heavy sporadic fighting, the carelessly expressed desire of some important Government leaders to settle issues by force, unfortunate propaganda, and mutual suspicion and distrust.



On June 24, the Committee of Three reached agreement on a document entitled "Stipulations for the Resolution of Certain Disagreements among the Field and Communication Teams, and Executive Headquarters in Changchun and Peiping."<sup>15</sup> Under this agreement certain authority was granted to American officers on teams and at the Executive Headquarters which was expected to facilitate greatly control of the situation in areas of hostilities in the future. The most difficult problem was that of redistribution and reduction of troops in Manchuria and North and Central China. The Manchurian phase then seemed to be the least difficult to compose.

#### CESSATION OF HOSTILITIES IN MANCHURIA

By June 26 an agreement had been reached in the Committee of Three for the cessation of hostilities in Manchuria, entitled "Directive for the Termination of Hostilities in Manchuria."<sup>16</sup> This Directive provided for the application to Manchuria of the cessation of hostilities agreement of January 10, except as modified in the Directive or later by the Committee of Three; for the separation from contact of troops in close or hostile contact; for the readjustment of troops on the basis of the situation believed to have existed at noon of June 7, 1946; for the cessation of all tactical movements; for the punishment of commanders who failed to carry out the terms of the Directive; and for the submission by both sides to the Advance Section of the Executive Headquarters, within 15 days of the effective date of the Directive, of lists of all units, strengths and locations in Manchuria.

Agreement on this document marked the settlement of the second of the three major issues to be decided during the 15-day truce period, which had now been extended to June 30. It was understood, however, that agreements on individual issues would not be operative unless agreement on all major issues was reached in accordance with a stipulation to that effect by the Generalissimo.

#### REVISION OF THE MILITARY REORGANIZATION AGREEMENT AND RELATED POLITICAL PROBLEMS

When the discussions revealed the impossibility of reaching agreement for revision of the basic military reorganization agreement of February 25 prior to the expiration of the extended truce period, negotiations were centered on a preliminary agreement covering only the principal issues, with the understanding that formal revision would be negotiated after the completion of the preliminary document.

<sup>15</sup> See annex 78.

<sup>16</sup> See annex 79.



The question of troop dispositions was complicated by the fact that little demobilization had taken place in North China. The National Government had confined its demobilization to South and West China and further demobilization would be largely confined to North China and Manchuria. This National Government demobilization had been carried out by reducing divisions which lacked full strength to brigades, the officer personnel of divisions headquarters and headquarters troops having been demobilized. The real point was that under the present Government proposals very heavy troop demobilization on both sides would be involved between July 1, 1946, and January 1, 1947.

On June 21, General Chou En-lai had stated that the Chinese Communist Party proposed that: (1) the Committee of Three should immediately stop the fighting in Manchuria and China proper and a new order for the termination of hostilities should be issued with the additional stipulation that American members of field teams should have the power to execute this order and to decide upon investigations to be made by the teams; (2) after the cessation of fighting, the Committee of Three should work out a plan for the restoration of communications and the Chinese Communists pledged that the repair of railways would have first priority; (3) after the cessation of hostilities, the Committee should work out arrangements for the reorganization and demobilization of armies in all China, including Manchuria, and the staffs of both parties under the leadership of the American staff should work out a plan for the Committee of Three's approval; and (4) a second session of the Committee of Three should be convened to discuss the reorganization of the Government, the protection of the people's rights and a solution of the people's livelihood, and local governments should be reorganized and elections held. General Chou expressed the belief that the Generalissimo was most concerned over the problems of army reorganization, integration, and training and pointed out that the Generalissimo presented demands in connection with these problems which caused concern to the Chinese Communist Party because if the Chinese Communist Party accepted these demands there would still be no assurances on the many other problems which had not been discussed. General Chou considered this the crucial point at issue. He suggested, therefore, that during the period of army reorganization the Communist troops be reorganized in Communist areas and Government troops in Government territory and that training be carried out by American officers, who, he said, were trusted by both sides, the two forces to be brought together and integrated after this interim period.

General Marshall pointed out to General Chou that the Generalissimo had stated very clearly, in his announcement of the truce period on June 6, that a basis should be established for carrying out without further delay the agreement of February 25 for the demobilization, reorganization and integration of Chinese armies and that the Generalissimo had this in mind when he presented his proposals. General Marshall emphasized that there must be a definite understanding of Chinese Communist demands regarding the redistribution of troops in North China and that this should have been decided upon in March and April, when the Chinese Communists were to have submitted a list of their troops for demobilization. He continued that the National Government had submitted such lists but the Communist Party had not done so. In the absence of these lists, the staffs had been unable to draw up a plan for troop redistribution in North China.

After learning of the decision of the Generalissimo to extend the truce period, General Chou En-lai agreed to include the questions of redistribution of troops in North and Central China in the agenda for discussion since this problem was the greatest gap between the two parties. In conversations on this subject, General Marshall pointed out that when General Chou referred to the attitude of Government military commanders in Manchuria, he should remember General Marshall's statements about the Chinese Communist generals in Manchuria at the time of their occupation of Changchun, and that he should also remember that he himself had frequently used the expression "conditions have changed" in justifying some proposal, just as this expression was now being used by the National Government in presenting its new stipulations.

On June 26 General Marshall informed General Chou that the Government, pursuant to the Communist Party demand, was willing to agree to a revision of troop strengths in Manchuria to allow the Communists to have 3 divisions as against the Government's 15 divisions but would not agree to 5 Communist divisions.

General Chou said that the Chinese Communist Party's difficulty was that, while it was entering into agreements on military matters, it did not know what the Government attitude would be later in regard to political questions. He then explained the views of the Chinese Communist Party as follows:

Army units would have no connection with civil administration, and after the reorganization of the Central Government and local governments the Communist armies would be assembled in areas under Communist control and Government armies in areas under its control. The army would be separated from civil administration through the



establishment of local self-government and elections. The Government view that political administration should be adjusted according to the identity of the troops in control of a particular area was a violation of the principle of subordination of the army to civil administration. Under the Government proposals, Government troops would in many cases move into Communist areas and change the civil administrations. The movement of Government armies into Communist-held areas for the purpose of demobilization would mean occupation of Communist territory through negotiation as a substitute for occupation by force. This procedure was incompatible with the PCC resolutions on this subject and with the general agreements. The Communists were willing to withdraw from some areas in order to erase Government fear of a Communist threat, but such areas should be left ungarrisoned. Both Jehol and Shantung Provinces were largely under Communist control and it was more logical to expect the Government to evacuate these provinces than to demand that the Communists do so.

On June 27 the Generalissimo told General Marshall that political adjustments were at this time difficult, if not impossible, unless military readjustments were effected as a means of avoiding clashes, and presented specific proposals for such readjustments: The Chinese Communist Party should, within ten days, evacuate north Kiangsu Province, the Tsinan-Tsingtao Railway, Chengte and Kupeikou, An-tung Province, and Harbin, these places to be occupied by Government troops within one month; the Communists should withdraw in one month from other places to be evacuated, but the entry of Government troops might be delayed for two or three months; and as a compromise measure, Communist officials in Hsin Heilungchiang, Hsingan, and Nenchiang Provinces in Manchuria, and Chahar Province, might be accepted by the Government as a temporary arrangement which would receive consideration at the time of political reorganization.

In commenting upon the Generalissimo's terms, General Chou En-lai expressed the following views: Garrison troops must not interfere with the local administration in areas where they were stationed. While the Chinese Communist Party was willing to consider a readjustment regarding Harbin and the detailed problems involved in stationing Government and Communist troops in specified areas, it was not in a position to accept the Government claim to the Tsinan-Tsingtao Railway, Chengte, Kupeikou, and the other places. However, if the Government felt that the Communist forces along the rail line in north Kiangsu and Shantung constituted a menace to the Government, the Communists were willing to reduce their forces in such areas or withdraw them altogether, but the Government troops should



not enter Communist areas. The Communists were willing to garrison north Kiangsu with a small force by reducing the number of troops provided for in the military reorganization agreement of February 25. They would withdraw their forces from the Tsinan-Tsingtao Railway if the Government would agree to garrison only Tsinan, Weihsien, and Tsingtao. All Communist troops would be withdrawn from the Tsaochuang coal mines, leaving no garrison troops and freeing the railway line for operation in connection with the coal mines, the latter to be controlled by a committee established for that purpose. These withdrawals should, however, in no way prejudice the local administrations established by the Communists in those areas.

Subsequent conversations on the subject of troop dispositions indicated that the Government was adamant regarding its demand for the withdrawal of Communist forces from Chengte and for the stationing at Yenki of the Communist forces in eastern Manchuria and was insistent on having sizable Government garrison troops in Harbin. The Communist Party was equally adamant that areas to be evacuated by the Communists during the period of army reorganization should not be occupied by Government forces.

#### GENERAL MARSHALL'S DRAFT AGREEMENT ON THE ARMY REORGANIZATION PLAN

After these discussions General Marshall drew up a draft proposal entitled "Preliminary Agreement to Govern the Amendment and Execution of the Army Reorganization Plan of February 25, 1946"<sup>17</sup> as a basis of discussion by the two Chinese sides with the hope that agreement might be reached on this final document prior to the expiration of the extended truce period on noon of June 30. As stated in the document, it established conditions for the purpose of committing the National Government and the Chinese Communist Party to certain understandings in order to facilitate the preparation and acceptance of the formal documents required and to permit the immediate issuance of instructions for the final termination of hostilities.

The chief points of this document were:

1. Provision for the specific disposition of Government and Communist troops, by definite localities, in Manchuria and China proper.
2. No change in 5-to-1 ratio of troop strengths.
3. The previously established period of 12 months for the assignment of troops to specified localities to be altered to 6 months.
4. The Executive Headquarters to determine immediately localities occupied by Government and Communist forces in China proper since

<sup>17</sup> See annex 80.

January 13, 1946, and troops involved to evacuate such areas within 20 days, unless specifically directed otherwise.

5. The Executive Headquarters to determine immediate localities occupied by Government and Communist forces in Manchuria after noon of June 7, 1946, and troops involved to evacuate such areas within 10 days unless specifically directed otherwise.

6. The Communist Party to agree to a Government garrison in Harbin of 5,000 men.

7. The Communist Party to concentrate its troops in specified localities, Government troops not to move into areas vacated in China proper and existing local governments and Peace Preservation Corps for maintenance of local security to be continued.

An annex to this document specified areas in which Communist troops were not to be garrisoned or concentrated, leaving for discussion the time period within which these troops were to be withdrawn.

In commenting on this draft proposal, the Generalissimo expressed unwillingness to confine paragraph 5 to Manchuria only. Regarding paragraph 6, which dealt with the status of Harbin, he agreed to appoint a civilian mayor and to name a person acceptable to the Communist Party. In regard to paragraph 7 he first expressed complete disapproval and his final attitude was not clearly indicated. He agreed to Communist local governments, but could not accept such an arrangement in Kiangsu Province because of the numerous refugees, who, he said, would be mistreated by the existing local governments. He accepted the idea of Peace Preservation Corps on the basis of strengths similar to those of local security troops in a *hsien*. The Generalissimo would not accept partial occupation by the Government of north Kiangsu but insisted that the Communist evacuation should be carried out as far north as Huaian within 6 weeks and, within 3 to 6 months, north of the Lunghai Railway. He also stipulated that the Communist evacuation of the Tsinan-Tsingtao Railway should include the coal mines along that line, particularly Poshan (on a spur running south from Changtien). He was unbending in regard to the Communist evacuation of Chengte and said that the Communists should evacuate areas in Jehol Province south of the latitude of Chengte within 1 month and the city itself within 3 months. He stipulated that Antung Province should be evacuated within 1 month and concluded that a paragraph should be added to the document requiring the completion of amendments to the military reorganization of February 25 within 10 days. In regard to the Manchuria Annex,<sup>18</sup> which had been presented to General Chou En-lai on June 17 with National Government approval as an annex to the amendment of the

<sup>18</sup> See annex 81.



agreement of February 25, the Generalissimo stated that the entire demobilization and integration program in Manchuria should be completed before November 1, 1946, the original document having provided for its completion by January 1, 1947.

On June 29 General Chou En-lai commented as follows to General Marshall on this document and the reservations of the Generalissimo to the document: The Chinese Communist Party could not agree to the Generalissimo's desire to make an exception of north Kiangsu, although it would be willing to station only minimum forces in that area. Nor was the Communist Party in a position to accept the time limits desired by the Generalissimo because it was not sufficiently informed of actual conditions to know how much time would be required to effect the concentration of Communist troops in the areas indicated. He suggested, therefore, a period of 1 to 3 months—in some cases it would require the minimum and in others more.

As Shantung Province was almost entirely under Communist occupation, the Communists should have some cities on the Tientsin-Pukow line if they withdrew entirely from the Tsinan-Tsingtao Railway. Although the Communists had no intention of stationing troops at the coal mines along the Tsinan-Tsingtao Railway, the stipulation that they should give up all these coal mines was not acceptable in principle. Further concessions regarding Chengte were impossible. The Communists had made many concessions to the Government without presenting any demands, except the proposal for an increase of a few divisions in Manchuria, and he was asking Yen-an for authorization to withdraw that proposal. Since he had previously thought that the National Government's demand regarding Antung referred to the city rather than the Province, he would have to refer this question to his colleagues in Manchuria before giving a reply.

After further discussion, General Chou said that he was prepared to consider any formula except that for civil administration involving the withdrawal of the Communist forces from north Kiangsu and Government occupation of that region. He continued that the main text of the document was almost entirely acceptable to the Communist Party except for one or two minor points.

Thus the only important issue on which agreement had not been reached at this time was the question of the status of the local governments in the areas from which the Chinese Communist forces would be withdrawn. The settlement of this issue would virtually have assured an agreement on the preliminary document for the amendment of the military reorganization plan, which, in turn, would have led to the signing of all the documents discussed during the June truce periods,



the Generalissimo having stipulated that all the documents on which agreement should be reached be signed simultaneously.

On the following day the Generalissimo indicated that he was willing to compromise somewhat in the matter of Chengte but insisted that the evacuation of Kiangsu by the Communists to the north of the Lunghai Railway be completed within one month. General Marshall pointed out that it would be impossible logistically to evacuate to the north of the Lunghai line in one month and that the most serious factor was the Communist insistence on the continuation of the local administrations and a Peace Preservation Corps. He then suggested that a compromise solution be found on the basis of the continuation of the local governments, including the establishment of some specially selected group to arrange an agreement regarding a modification of these governments and the matter of the Peace Preservation Corps.

General Marshall pointed out to the Generalissimo that statements issued by his military leaders indicated that the Government was washing its hands of any democratic procedure and was pursuing a dictatorial policy of military force. He further informed the Generalissimo that comparison of the army dictatorship in Japan, which led to the destruction of that nation, with the present procedure of the Chinese military leaders would be inevitable. General Marshall informed the Generalissimo that in his opinion an extension of the existing form of partial truce would probably result in violent military ruptures due to the tense and explosive situation, the bitterness of the commanders in the field, and the strong desire of Government military leaders to settle matters by force, for which the National Government plans were complete and fairly well known to the Communist Party.

The Generalissimo finally announced that he had already issued instructions continuing in effect his orders against aggressive action by his troops. On June 30, the Kuomintang Minister of Information publicly announced that, while the truce period had expired at noon on June 30 and although no satisfactory agreement had been reached between the two parties, the Government had requested General Marshall to continue mediation with a view to reaching a peaceful settlement and that the Government would not initiate any attacks against Communist forces but would order its troops to remain on the defensive and await the settlement of pending issues.

On July 1 an announcement was made that the Generalissimo had issued orders continuing the prohibition against aggressive action by his armies.<sup>19</sup> General Chou En-lai subsequently furnished Gen-

<sup>19</sup> See annex 82.

eral Marshall a copy of a similar order issued on July 1 by the Chinese Communist Party leaders.<sup>20</sup>

#### DISINTEGRATION OF THE TRUCE ARRANGEMENT

The situation was further complicated by the renewed public expression by several National Government leaders of a desire to settle the issue by force and by mass meetings in Shanghai carefully organized to stir up anti-American feeling, related in particular to the then current Congressional consideration of lend-lease matters.

The Chinese Communists professed to regard measures for aid to China and official statements in Washington as proving their contention that American economic and military support to the Chinese Government would continue to be given irrespective of whether the National Government offered the Communists a fair and reasonable basis for settlement of military and political differences. The Communists maintained that new legislation intended to aid China which was then under consideration in the United States Congress<sup>21</sup> was reinforcing the National Government's tendency to deal with the Communists by force and was thus contributing to all-out civil war. At the same time some reactionary Kuomintang elements in inner Government circles were utilizing American measures as a basis for pressing the Generalissimo to push forward with a campaign of extermination against the Communists. Yet these and other Kuomintang extremists appeared to be joining in anti-American agitation on the grounds that American economic pressure was causing American imports to displace Chinese products, bankrupt Chinese industrialists and prevent Chinese recovery. These Kuomintang groups were also antagonistic to the restraint exercised by General Marshall and his assistants on the National Government with regard to an anti-Communist military campaign and were even using the Communist line against American intervention in pursuance of their aim to free the National Government from any American impediment to drastic anti-Communist action. The agitation and propaganda resulting from the activity of the different factions was being manifested in mass demonstrations, press campaigns and mob actions. One such incident involved a Shanghai peace delegation, consisting of educators, businessmen, students, and labor representatives and including therein representatives of women's organizations, which

<sup>20</sup> See annex 83.

<sup>21</sup> Under his wartime powers, the President had directed the establishment of a small military advisory group in China. The proposed legislation would have provided legislative authority for such a group and the military assistance under the new legislation would have been carried out in accordance with the military reorganization agreement of Feb. 25, 1946. See chapter VII.



proceeded to Nanking on June 24 for the publicly stated purpose of petitioning the Government to avoid civil war. This peace delegation was met at the railway station and restrained from leaving by an organized group of Kuomintang secret police, who confined the delegates in a room and in the course of a disturbance lasting several hours mauled and beat the delegates so severely that they were hospitalized. Government gendarmes who were present at the beginning of the incident failed to intervene and soon disappeared and the delegates were not rescued until several hours later.

During July there began a gradual worsening of the military situation with the spread of hostilities to various points in China proper.<sup>22</sup> The Commissioners of the Executive Headquarters had endeavored to keep the situation under control by dispatching a message on July 5 to all field teams and to the advance section at Changchun, in which it was stated that the National Government and the Chinese Communist Party had announced that the truce was to be continued throughout China pending the outcome of further negotiations. The Commissioners directed all commanders to refrain from aggressive action, including advances, attacks, and pursuits. The effect of this order was short-lived, however, and other events occurred which gave indication of further deterioration in the situation, both militarily and politically.

On July 7 the Chinese Communist Party issued a manifesto containing a bitter attack on American policy toward China and a protest against what the Communists termed American military and financial aid to the National Government, which encouraged the civil-war policy of the Kuomintang. General Marshall had previously refrained from comment on such propaganda attacks, but the coincidence of events led him to inform General Chou En-lai of the serious blow to the negotiations such propaganda attacks represented, paralleling as they did similar propaganda releases from Moscow, and of the impossibility of his serving any useful purpose in mediation and in the termination of hostilities while such attacks continued.

Matters were not helped at this stage by the departure of the Generalissimo from Nanking for Kuling on July 14, which meant that negotiations would be greatly handicapped during his absence. There were increasing signs of the gravity of the situation from a military standpoint, as hostilities spread in various areas. Each side accused the other of responsibility for offensive action and movements of troops. Accompanying the deterioration in the military situation

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<sup>22</sup> Meetings were held in early July of a special group of National Government and Chinese Communist representatives to discuss the problem of local government but no agreement could be reached.



were evidences of efforts on the part of certain Kuomintang officials to suppress open criticism of the Government. Two well-known Chinese members of the Democratic League, one of them a prominent university professor, were assassinated by unknown persons (later revealed to be members of the Kunming Garrison Headquarters' secret police) and there were indications that Kuomintang secret police were intimidating leading Democratic League members and Chinese liberals in other parts of the country.

Communist activities during this period, in line with the Yen'an propaganda attack on the United States policy toward China, began to be centered on the United States Marines in China and in mid-July the first serious incident involving the Communists and United States Marines occurred—the kidnapping of 7 Marines in east Hopei and their detention by the Communists for several days before being released. This was followed at the end of the month by a deliberate Communist ambush of a United States Marine-escorted motor convoy bound from Tientsin to Peiping, during which 3 Americans were killed and 12 wounded.<sup>22a</sup>

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<sup>22a</sup> Following the Communist ambush on July 29 of the United States Marine convoy near Peiping, a fact-finding team of selected personnel from the Executive Headquarters was formed at the personal request of the Generalissimo and of General Chou En-lai to determine the responsibility and to submit a report on the incident. General Marshall delayed the formation of this team until the United States Marine Corps investigation of the incident had been completed and the Communists had made a personal request for such a team because of the anticipated charge by the Communists that the National Government representative on the investigating team would automatically side with the American member. General Marshall explained this reason to General Chou En-lai.

The investigation by the fact-finding team from Executive Headquarters encountered great, although anticipated, difficulties. The Communists employed delaying tactics and vicious propaganda. General Marshall finally told General Chou En-lai that he would not tolerate further delays and misrepresentations. He characterized Communist tactics regarding the investigation of this incident in emphatic terms and informed General Chou that if there were further delays he would withdraw the American representative from the investigating team and make a public statement of the facts. General Marshall was reluctant to take such action, however, since it would play directly into the hands of the small group in the Kuomintang which was blocking his efforts to terminate the fighting, would virtually end the usefulness of the Executive Headquarters, and might result in a general military conflagration. When General Chou stated that the reports received from Communist representatives were completely at variance with those from the Americans, General Marshall emphasized to him that it was quite impossible for the United States Army, Navy or Marine Corps personnel to involve themselves in deliberate misrepresentation in such an investigation. He further said that the American investigators had made no attempt, and did not intend, to conceal facts or bend them to their advantage and that he wished to emphasize the importance of straightforward action without delay. The testimony of the

#### IV. THE APPOINTMENT OF J. LEIGHTON STUART AS AMBASSADOR TO CHINA

The deterioration of the situation in China and what appeared to be the decisive influence of the reactionary political and military group around the Generalissimo convinced General Marshall of the desirability of obtaining the assistance in the mediation effort of an American of unquestioned character and integrity and with long experience in China. With this view in mind, General Marshall recommended the appointment of Dr. J. Leighton Stuart, President of Yenching University at Peiping, as American Ambassador to China. President Truman acted upon this recommendation and on July 11, 1946, the United States Senate confirmed the nomination of Dr. Stuart as Ambassador to China.

On July 26, shortly after Dr. Stuart's arrival at Nanking, General Chou En-lai proposed that an order for the unconditional cessation of hostilities be issued immediately and that at the same time the various arrangements worked out during the negotiations in June be put into effect. He further proposed that National Government and Communist Party representatives then meet with Dr. Stuart for preliminary discussion of the reorganization of the Government and local government problems and that any agreement reached be submitted to the PCC Steering Committee for approval since the reorganization of the Government required the approval of all parties.

In frank discussions at this time with a high-ranking National Government official, General Marshall endeavored to impress upon him the gravity of the situation. He informed him that the principal loss, in his opinion, was the lowering of the Generalissimo's prestige and that this was particularly tragic since the Generalissimo represented perhaps the greatest asset China had at this time. He continued that the Generalissimo's advisers were giving him such narrow and prejudiced advice that the situation seemed hopeless and that comments had been made to him privately by the Generalissimo's own associates which they could not make openly. He described the weakness of the financial and economic structure of the country, which argued strongly against civil war, and said that, if the Generalissimo continued in his present attitude toward negotiations, civil war was

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two Chinese sides regarding the incident was conflicting and General Marshall finally instructed the United States personnel of the investigating team to withdraw and submit their own report. This report was to the effect that a Communist force had ambushed the motor convoy of Executive Headquarters and UNRRA supplies escorted by a United States Marine unit, that it had killed three Marines and wounded 12 others and that no National Government troops were present or involved in the incident.



inevitable. General Marshall pointed out that while the Generalissimo believed that the military situation would develop favorably during this lull in negotiations, developments might not occur in accordance with his belief. He said that the Generalissimo's military commanders were leading him into an uncontrollable situation and that when such a situation materialized these same commanders would be appealing for aid which would not be forthcoming. General Marshall emphasized that the United States would not underwrite a Chinese civil war.

In later conversations with this same official, General Marshall emphasized that the tactics being followed by the Government were such that in its efforts to prevent communism the Government was creating conditions favorable for a Communist regime. He cited as an example the existing financial and economic situation which would be made more serious by continuation of military operations and added that civil war, accompanied by economic chaos, would provide fruitful breeding grounds for communism.

Meanwhile, economic developments were providing grave portents of the rapid deterioration that was to come. The resumption of military operations was progressively isolating agricultural and mining areas from urban centers of consumption and export, and required a steady expansion of the currency in circulation to meet the Government's swollen budgetary requirements. These factors combined to stimulate a rapid, although not yet explosive, inflation, the consequences of which were universal commodity speculation and hoarding, a low level of exports and emigrant remittances and, in turn, the steady depletion of the Government's foreign exchange reserves.

## V. ORGANIZATION OF THE STATE COUNCIL

### PROPOSAL FOR A FIVE-MAN COMMITTEE

On August 1 Dr. Stuart in a long conference with the Generalissimo at Kuling proposed the organization of a special committee, including National Government and Communist Party representatives, with Dr. Stuart as Chairman, for the purpose of reaching an agreement for the immediate organization of the State Council.<sup>23</sup> In view of the apparent impossibility of obtaining the Generalissimo's agreement to the issuance of an order for the termination of hostilities, General Marshall and Dr. Stuart considered it advisable to approach the problem from another angle. It was their belief that if some progress were made by this committee the Generalissimo would be

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<sup>23</sup> For the PCC resolution on the State Council, see annex 64.



willing to agree to a cessation of hostilities, which were at this time increasing in extent throughout North China and were threatening to spread into Manchuria. The Generalissimo utilized the Communist attack on the United States Marine convoy as a reason for delaying decision but agreed to consider the matter. General Marshall and Dr. Stuart were of the opinion that there was urgent necessity for creating the State Council, which, in effect, would give a form of genuine legislative action for control or guidance of the Government.

On August 5 the Generalissimo gave his agreement to the formation of a small informal five-man committee to be composed of Government and Communist Party representatives, under Dr. Stuart as Chairman, for the purpose of reaching an agreement for organization of the State Council. On the following day he stipulated five preliminary conditions which the Communists would have to accept and carry out within a month to six weeks: (1) The Communist forces in north Kiangsu should withdraw north of the Lunghai Railway; (2) Communist forces should withdraw from the Tsinan-Tsingtao Railway; (3) Communist forces should withdraw from Chengte and areas in Jehol Province south of that city; (4) Communist forces should withdraw into 2½ provinces in Manchuria (Hsin Heilungchiang, Nenchiang, and Hsingan); and (5) Communist forces should withdraw from places in Shansi and Shantung Provinces occupied after June 7. These terms were more exacting than those at the end of June when the stalemate had been reached.

The Chinese Communist Party replied that the National Government made no mention of local government and that the Communist Party's refusal to accept Government demands for taking over local administration in areas to be evacuated by Communist troops, which had led to the impasse at the end of June, was based on the grounds that such a procedure was contrary to the PCC resolutions.<sup>24</sup> The Communist Party was willing to agree to the holding of political and military discussions simultaneously but would not accept the five Government conditions as a condition which must be agreed to prior to discussion of political matters.

#### THE MARSHALL-STUART STATEMENT OF AUGUST 10, 1946

At this point in the negotiations, on August 10, 1946, General Marshall and Ambassador Stuart issued a joint public statement in an

<sup>24</sup> Annex 1 of the PCC resolution entitled "Program for Peaceful National Reconstruction": "In those recovered areas where the local government is under dispute the *status quo* shall be maintained until a settlement is made according to Articles 6, 7 and 8 of Chapter III on Political Problems in this Program by the National Government after its reorganization."

effort to bring both sides and the Chinese public to a realization of the issues and to arouse public pressure for the termination of hostilities. Pointing out that the fighting threatened to pass out of control and that the economic situation was most serious, they stated that both the Government and the Communist leaders wished to put an end to the fighting but that there was still lack of agreement on certain issues. The redistribution of troops was one of the issues mentioned, but General Marshall and the Ambassador informed the Chinese public that a more fundamental issue concerned the character of local governments following such a redistribution.<sup>25</sup>

In very frank conversations with the Generalissimo at this time General Marshall outlined his estimate of the situation as follows: Events during the weeks following his final talk with the Generalissimo prior to the latter's departure for Kuling in July corresponded almost exactly with his predictions at that time. The Generalissimo had said that he could control the situation in Manchuria and that fighting in North China would be local and that, if General Marshall were patient, the Communists would appeal for a settlement and would be willing to make compromises necessary for such a settlement. Fighting in North China would, however, under present circumstances soon be completely out of control. Once it spread to Jehol Province, Manchuria would be affected, and the result would be a civil war beyond his or Communist control. This would be a catastrophe in that it would afford an ideal opportunity for the Communists to expand and for the U.S.S.R. to support the Chinese Communists, either openly or secretly. The Government had much to lose and little to gain from hostilities at this time, which might end in the collapse of the Government and of the country's economy. The Generalissimo must remember that the long lines of communication and the terrain favored the employment of Communist guerrilla tactics. General Marshall's objective, beyond that of a unified and rejuvenated China, was not what some of the Generalissimo's advisers seemed to think—that is, to put the Communist Party in control. He opposed the policy of the Generalissimo and his immediate advisers because he thought that the procedure of the National Government would probably lead to Communist control in China; the chaotic conditions then developing would not only weaken the Kuomintang but would also afford the Communists an excellent opportunity to undermine the Government. Information reaching General Marshall from a wide variety of sources indicated a serious lowering of Kuomintang prestige, and criticism of Kuomintang governmental procedure was increasing daily. The most

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<sup>25</sup> See annex 84.



serious consequence of the situation was its profound injury to the prestige of the Generalissimo, which was perhaps China's greatest asset.

### GENERALISSIMO CHIANG KAI-SHEK'S POSITION

After frequent conferences the Generalissimo indicated his willingness to make an effort to reach agreement with the Chinese Communists for the organization of the State Council through the Five-Man Committee, but he was not willing to agree to a termination of the fighting until his five conditions had been met. The Generalissimo informed General Marshall that even this concession was a great one and involved a military risk on the part of the Government. General Marshall did not agree with this view and considered that the greater risk was involved in the continuation of the fighting.

On August 13 the Generalissimo issued a public statement which was indicative of his attitude.<sup>28</sup> The entire blame for the breakdown in the negotiations and the economic distress in the country was laid at the door of the Chinese Communists. He described the Government's policy as follows: (1) the ending of the period of political tutelage and establishment of constitutional government; (2) adherence to the PCC resolutions; (3) broadening of the basis of the Government by the inclusion of members of all parties and non-party persons to carry out the PCC Program of Peaceful National Reconstruction; (4) adherence to the cessation of hostilities agreement of January 10, with the proviso that the Communists withdraw from areas "where they threaten peace and obstruct communications"; (5) the use of political means to settle political differences, but only if the Communists gave assurance and evidence that they would carry out the various agreements reached; and (6) the protection and security of the people and their properties and the removal of any threat to peace.

### MAJOR FACTORS OF DISAGREEMENT

On August 22 General Chou En-lai expressed his willingness to participate in the meetings of the Five-Man Committee to discuss the organization of the State Council. There were two issues connected with this question: (1) the allocation of seats on the Council among the political parties and the non-party group and (2) the veto power in the Council in connection with the carrying out by the reorganized Government of the Program for Peaceful National Reconstruction agreed upon by the PCC and constituting one of the PCC resolutions.

<sup>28</sup> See annex 85.



The military situation was growing more serious day by day and there was at this time an immediate threat of an outbreak of fighting in Jehol Province, northeast of Peiping. The Chinese Communist Party had issued a general mobilization order, which the Communists contended was a defensive measure against what they considered to be the purpose of the National Government to settle issues by military force. The fact of the matter was that each side took the stand with General Marshall that the other was provoking the fighting and could not be trusted to go through with an agreement. The effort of General Marshall and Ambassador Stuart with respect to the State Council was another move, on a higher level, to break the stalemate and make it possible to terminate hostilities.

In late August the Generalissimo gave his formal agreement to the creation of the Five-Man Committee to pave the way for the formation of the State Council and also agreed that the conclusions of this group would be presented to the PCC Steering Committee for approval in accordance with the PCC resolutions. Shortly thereafter he appointed the National Government's two members of the Committee. At the same time he indicated that he had not in any way moderated his insistence on the five conditions to be met by the Communists in order to bring about a cessation of hostilities. In view of these five conditions General Chou En-lai expressed doubt regarding the proposal for creating the State Council, contending that it would only serve to give false encouragement to the public since the Generalissimo had no intention of facilitating the cessation of hostilities by moderating his previous terms.

Under these circumstances, General Marshall and Ambassador Stuart were concentrating on the measures to create the State Council as at least one definite step toward governmental reorganization that might exert an influence sufficient to furnish a basis for the termination of the fighting. The Generalissimo informed General Marshall that all that was necessary was for the Chinese Communists to stop fighting and abide by the terms of the cease-fire order of January 10, although under questioning he admitted that he was not moderating his five conditions.

In the meantime the National Government continued its offensive in north Kiangsu, cleared the Communists from the Tsinan-Tsingtao Railway and captured Chengte, capital of Jehol Province, on August 29. These were all points covered by the five Government conditions. The Communist forces launched an attack along the Lunghai Railway between Hsuchow and Chengchou and began their siege of Tatung in early August.

## VI. THE TRUMAN-CHIANG MESSAGES OF AUGUST 1946

### PRESIDENT TRUMAN'S MESSAGE OF AUGUST 10

In the meantime, on August 10, 1946, President Truman had forwarded to the Generalissimo a personal message, in which the President had expressed his concern at the deteriorating situation in China and at the actions of selfish interests of extremist elements, equally in the Kuomintang and the Chinese Communist Party. The President described the growing conviction that an attempt was being made to settle major social issues by resort to force rather than by democratic procedures. He pointed out that it was still the firm desire of the American Government and people to assist China to achieve lasting peace and a stable economy under a truly democratic government, but that unless convincing proof were shortly forthcoming that genuine progress was being made toward a peaceful settlement of internal Chinese problems, it would be necessary for the President to redefine and explain the position of the United States to the American people.<sup>27</sup>

### GENERALISSIMO CHIANG'S REPLY OF AUGUST 28

To this the Generalissimo replied on August 28.<sup>28</sup> The reply placed the blame for the fighting on the Communists and charged that the aim of Communist policy was to use armed force to seize political power, overthrow the Government, and install a totalitarian regime. He stated that while mistakes had been made by some National Government subordinates they had been minor in scale compared with the flagrant violations of the Communists and that the National Government had dealt sternly with its offenders. The Generalissimo proclaimed his policy of broadening the basis of the National Government by the inclusion of all parties and non-party personnel and said that success must depend upon the sincerity of the Communists in responding to the National Government's appeals.

### PRESIDENT TRUMAN'S MESSAGE OF AUGUST 31

In view of the generally unsatisfactory nature of Generalissimo Chiang Kai-shek's reply of August 28 to President Truman's personal message and the continued deadlock in the negotiations, the President forwarded a further message to the Generalissimo in which he emphasized that the prompt end of the threat of civil war in China

<sup>27</sup> See annex 86.

<sup>28</sup> See annex 87.



through the establishment of political unity would make it feasible for the United States to proceed with its plans further to aid China in the rehabilitation of its industrial and agricultural economy.<sup>29</sup>

## VII. THE DRIFT TOWARD ALL-OUT STRIFE

### COMMUNIST RESENTMENT OF AMERICAN AID TO CHINA

The signing of an agreement between the Chinese and United States Governments on August 30, 1946, for the sale of United States Government surplus property in various islands of the Pacific was the occasion for the issuance of a statement by the Chinese Communist Party at Shanghai attacking the United States for extending large-scale military aid to the National Government. General Marshall had explained to General Chou En-lai the background of the negotiations leading to the signing of this agreement prior to its actual completion and had explained that the surplus property in question did not contain combat matériel but consisted of machinery, motor vehicles, communications equipment, rations, medical supplies and various other items which would be of considerable value in the rehabilitation of the Chinese economy. The transaction could not be held in abeyance until the two Chinese groups settled internal differences which had existed over a long period of years. The alternative was to deprive China and its people of the opportunity to acquire materials beneficial to its reconstruction.

In view of continued Chinese Communist propaganda attacks on the surplus property agreement of August 30, 1946, General Marshall gave a very detailed explanation of this transaction to the Communist Party representative. He pointed out that this transaction had been under discussion since the beginning of 1946 and had almost been settled at the time of General Marshall's departure for the United States in March. During his visit to the United States he had ironed out most of the difficulties involved and the failure to reach an agreement on this transaction in February had resulted from Chinese Government efforts to improve the terms. The alternative to completing an agreement with China for the sale of this surplus property was the immediate disposal of the property to other governments in the Far East or dumping it in the ocean, courses of action which would have deprived China of material of considerable importance in the economic rehabilitation of the country. General Marshall continued that Chinese Communist propaganda had imputed to this transaction every evil purpose possible and that great harm had thus

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<sup>29</sup> See annex 88.



been done. He concluded that while he accepted this propaganda as inevitable, he was greatly disturbed when a proposal such as that for the informal Five-Man Committee was being destroyed as a result of such propaganda. The Chinese Communist Party representatives, however, continued to be critical of the surplus property agreement on the grounds that items such as trucks, communications equipment and army rations and uniforms would be used for civil war purposes and other items would be sold on the market and the proceeds thereof expended for military purposes.

With respect to United States military aid programs<sup>30</sup> General Marshall was being placed in the untenable position of mediating on the one hand between the two Chinese groups while on the other the United States Government was continuing to supply arms and ammunition to one of the two groups, namely, the National Government. Action was therefore taken in August to suspend certain portions of these programs which might have a bearing on the continued prosecution of hostilities in China. Licenses were not granted for the export to China of combat type items of military equipment and in late September shipments of combat items from the Pacific area to China were temporarily suspended. (On October 22, 1946, the suspension was lifted to permit the delivery of civilian type items for the Chinese Air Force.) This ban was imposed at a time when the National Government was gradually increasing the tempo of its military campaign and when its reserves of matériel were ample. The ban apparently had little effect, since it was not until November, when the National Government had reached the peak of its military holdings, that the National Government issued an order for the cessation of hostilities. By that time the Government's forces had occupied most of the areas covered by its demands to the Chinese Communists in June and during later negotiations and had reached what turned out to be the highest point of its military position after V-J Day.

#### PROBLEMS RELATING TO THE FIVE-MAN COMMITTEE

By September 3 both Chinese groups had named their representatives to the informal Five-Man Committee. Agreement on the composition of the Committee did not, however, mean that Committee meetings were assured. The Chinese Communist Party continued to insist on the receipt of assurances from the Government that the latter would issue orders for the cessation of hostilities when agreement should be reached in the Committee.

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<sup>30</sup> See chapter VII.

In referring to the informal Five-Man Committee General Marshall pointed out to the Chinese Communist Party representative that, when this proposal was presented to the Generalissimo, the latter had said that it would not be an effective procedure since the Communists would immediately introduce other matters which would so complicate the discussions that no progress would be made. General Marshall had informed the Generalissimo that Dr. Stuart would act as chairman of the Committee only during discussion of State Council issues and that if other issues were brought up Dr. Stuart would withdraw from the discussions. General Marshall further explained to the Communist Party representative that he had exerted every effort and every argument to end the impasse and obtain a cessation of hostilities and that he had ignored the attacks on him personally, both those made publicly by the Communists and those made by individuals within the Government who were opposed to almost everything he had been trying to accomplish.

The Chinese Communist Party attitude toward the proposal for the informal Five-Man Committee was that it would agree to participate in the discussions of the Committee upon the receipt of a guarantee that cease-fire arrangements would be made and that the Government would drop its five conditions after the Committee reached a formula for Government reorganization. The Communist representative also stated that the Communist Party would not name its members to the State Council while fighting continued because the Government apparently wished to have the State Council decide upon cease-fire arrangements. He pointed out that if the matter were left to the State Council, the Kuomintang, together with the Youth Party, would have a majority of the votes and any cease-fire arrangements would thus be on Kuomintang terms. The Communists desired that the Committee of Three handle such arrangements. In brief, the Communist Party position was that it would participate in the discussions in the Five-Man Committee provided that, when a basis of agreement should be reached, a cease-fire order would be issued. It desired that an unconditional cease-fire order be issued or that the Committee of Three meet immediately to discuss this question.

Following several days of conferences at Kuling between the Generalissimo and General Marshall, the former indicated that certain terms were acceptable to him. He agreed that the settlement of the military terms for the cessation of hostilities would be made by the Committee of Three and not by the State Council provided the Communist Party agreed to have the Committee of Three take action on the various issues discussed by that Committee in June. These were the questions of restoration of communications, the terms for the



termination of hostilities and the redistribution of troops in Manchuria and the military reorganization of the armed forces which would stipulate the places where Communist troops were to be stationed. The Generalissimo had yielded on one important point by agreeing that the question of local government could be referred to the State Council after its establishment. He also expressed his willingness to have the Constitutional Reviewing Committee resume its work when the Five-Man Committee had reached agreement and its conclusions had been approved by the PCC Steering Committee but said that, prior to the issuance of a cease-fire order, the Communist Party must name its representatives to the National Assembly. General Marshall had gained the impression from statements by the Generalissimo that he considered that practically all the points covered by his five conditions would be automatically taken care of by his insistence on continued Government military occupation of places recently occupied by its troops. It was also the impression of General Marshall that reorganization of the Executive Yuan would take place after the convening of the National Assembly.

When these terms were transmitted to General Chou En-lai, he expressed the view that, except for the proposal for the Five-Man Committee to discuss the reorganization of the State Council, the entire procedure in connection with political considerations outlined by the Generalissimo was contrary to the PCC resolutions. The Communist Party asked, therefore, that the Committee of Three be convened immediately to find some basis for the issuance of a cease-fire order.

General Marshall considered that the Communist Party proposal meant a return to the impasse at the end of June which Dr. Stuart and he had been endeavoring to break through by the proposal for the reorganization of the State Council. He pointed out that unless the Committee of Three meeting were paralleled or preceded by efforts to reorganize the State Council, the situation had merely returned to the previous deadlock. It was General Marshall's position that the stand taken by the Chinese Communist Party was harmful to it, as the Government probably wanted all the time possible for military operations and time was thus to its advantage.

During this period the Communist representatives continued to insist on two points: (1) assurances from the Government that the Communists would be able to control sufficient votes in the State Council to veto any revision of the PCC resolutions, and (2) the early issuance of a cease-fire order.

The Generalissimo indicated at this time that he would not agree to a meeting of the Committee of Three until the Five-Man Committee



should meet and give indication of reaching an agreement for the organization of the State Council and all that it was necessary for the Communists to do in connection with the National Assembly was to submit a list of their delegates. The Generalissimo also indicated that he would not agree to informal discussions of the State Council issues by Government members of the Five-Man Committee prior to the formal meetings of the Committee, but that he would agree specifically that the two questions of the allocation of seats in the Council and the veto power would be the subjects for that Committee to discuss and settle.

On September 16 General Chou En-lai departed from Nanking for Shanghai. Prior to his departure he forwarded to General Marshall three memoranda. The first memorandum outlined United States aid to the Chinese Government, described it as contributory to civil war, protested the sale of United States Government surplus property to the Chinese Government, and demanded that the United States Government freeze all supplies and shipping covered by the surplus property agreement pending a settlement in China and the restoration of peace and unity and establishment of a coalition government. The second memorandum requested the convening of the Committee of Three to discuss the issuance of an order for the cessation of hostilities.<sup>31</sup> The third memorandum announced the departure of General Chou for Shanghai and said that he would return as soon as a meeting of the Committee of Three should be convened.<sup>32</sup>

The Generalissimo, when informed of the situation, said that he would not agree to Government participation in the Committee of Three until the Five-Man Committee had been convened and had given some indication of reaching an agreement. He did agree, however, to a compromise proposal presented by General Marshall regarding the allocation of seats in the State Council, which would have given the Communists within one vote of a veto power to block revision of the PCC resolutions, on the assumption that there was certain to be at least one liberal-minded, independent councillor who would vote independently.

#### NEITHER SIDE YIELDS MEASURABLY

During this period of negotiations, there had been little change in the position of the Chinese Communists. They continued to insist that a solution for the cessation of hostilities issue was a prerequisite to their participation in the Five-Man Committee discussions looking toward the organization of the State Council, although they did finally

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<sup>31</sup> See annex 89.

<sup>32</sup> See annex 90.

agree to enter into Committee discussions provided the Committee of Three should meet simultaneously to discuss the cessation of hostilities; they demanded that the Generalissimo's five conditions be dropped after a basis for the State Council should have been reached in the Five-Man Committee; they stated their refusal to name their members of the State Council, in the event of agreement on a formula for the Council, until hostilities should cease; and they indicated their desire that the PCC Steering Committee should discuss the reorganization of the Executive Yuan. The greatest concern of the Communists during this period was for the cessation of hostilities and for assurances that the PCC resolutions would not be modified; to this latter end they insisted on some formula in the veto power arrangement which would ensure that the PCC resolutions would not be changed, as they apparently felt that their safety lay in the retention of the decisions of the PCC.

The Government position during this period was less fixed: The Government first placed the blame on the Communists for the initiation of the fighting and thus insisted that there was no need to issue a cease-fire order; the Government stated at the beginning of September that it would not abandon the Generalissimo's five conditions; and Government spokesmen indicated that all issues regarding a truce and the settlements in various areas were to be discussed in the State Council. Subsequently, however, after an earlier refusal to consider the convening of the Committee of Three, the Generalissimo agreed to permit that Committee to settle the cessation of hostilities issue provided the Communists would carry out certain tentative agreements reached during June and, in effect, abandoned the five conditions through agreement to permit the Kiangsu local government problem to be settled by the State Council. Government military advances had in any case more or less made the carrying out of most of these five conditions a *fait accompli*. The Generalissimo also agreed to the summoning of the Constitutional Reviewing Committee as soon as the Five-Man Committee should have reached an agreement and this agreement should have been confirmed by the PCC Steering Committee, thus providing some assurance to the Communists of conformity with PCC procedures. He had, however, posed an additional condition by stipulating that he would not agree to the cessation of hostilities until the Communists should have named their delegates to the National Assembly, a procedure which the Communists characterized as not in conformity with the PCC resolutions; and he had indicated that the Executive Yuan would not be reorganized until the National Assembly should have convened, although the PCC resolutions envisaged the reorganization of the Execu-



tive Yuan prior to that time. The Generalissimo also indicated that he contemplated continued Government military occupation of the places occupied in its military campaign. Toward the end of this period of negotiations, the Generalissimo agreed to the convening of the Committee of Three when the Five-Man Committee should have given evidence of having reached agreement on the State Council, but he would not agree to informal meetings of the Five-Man Committee prior to its formal meetings.

The positions of the two parties thus continued irreconcilable. General Marshall and Dr. Stuart had endeavored to break the deadlock through the proposal for the Five-Man Committee as a step leading toward the cessation of hostilities. They had exerted strong pressure on the Generalissimo in an effort to obtain his concurrence to this proposal only to meet with Communist refusal to participate in the meetings of the Committee. Propaganda campaigns, as usual, played a part in wrecking their efforts, as they led to confusion and misunderstandings. The most bitter of these campaigns was that directed by the Communist Party against the American Government and the surplus-property transaction. Communist distrust and Communist practices of distortion and disregard of the truth imputed to this transaction an evil purpose intended to further civil war in China, which was utterly contrary to the facts. The Generalissimo had frankly told General Marshall that the conclusion of an agreement for the termination of hostilities was his final trump card in forcing the Communist Party to name its delegates to the National Assembly. Since the Communist Party considered this as a sixth condition to be added to the previously announced five conditions, they were pressing for the more immediate issue, as they saw it, of terminating the fighting.

On September 19, in response to an oral request from the Communist Party representative at Nanking, General Marshall communicated to General Chou En-lai at Shanghai the National Government reaction to General Chou's request for a meeting of the Committee of Three.<sup>33</sup> In a further memorandum from Shanghai, General Chou again repeated his request for a meeting of the Committee of Three and indicated that unless the meeting were convened he would be compelled to make public all the important documents in the negotiations since the June truce period.<sup>34</sup> General Marshall made it very clear to the Communist Party representative at Nanking at this time that in view of the vicious Communist propaganda attacks directed against his personal integrity and honesty of purpose, which were

<sup>33</sup> See annex 91.

<sup>34</sup> See annex 92.



being paralleled by repeated private requests from the Communists that he continue his mediation efforts, he wished to emphasize that such a procedure would no longer be tolerated—if the Communists doubted his impartiality as a mediator, they needed only to notify him accordingly and he would immediately withdraw from the negotiations.

In discussions of the situation with high-ranking National Government representatives at this time, General Marshall impressed upon them the delicacy of the situation and the possibility that, if the situation continued to deteriorate, the Communists would be driven to seek and be dependent upon outside support, such as Russian aid, which would make the task of peaceful settlement much more difficult.

Since the Generalissimo was expected to return to Nanking from Kuling, where he had been since mid-July, General Marshall and Dr. Stuart addressed a joint letter to General Chou En-lai at Shanghai asking that he also return to Nanking in order that further efforts could be made to achieve a peaceful arrangement.<sup>35</sup> General Chou maintained in his reply his previous stand that he would prefer to await the convening of the Committee of Three.<sup>36</sup>

Upon the return of the Generalissimo to Nanking and pursuant to his request for advice regarding the issuance of a public statement, General Marshall suggested on September 27 that the Government propose the convening of the Five-Man Committee and the Committee of Three with the understanding that the agreements tentatively reached in June be carried out, that the Committee of Three decide the problem of the military reorganization and integration agreement, that the PCC Steering Committee confirm whatever conclusions were reached by the Five-Man Committee, that all local government issues be settled by the State Council and that concurrently with the cessation of hostilities the Communist Party publish the list of its delegates to the National Assembly. General Marshall set forth these procedures in a draft statement for approval by the Generalissimo and possible use.<sup>37</sup> General Marshall suggested that these arrangements be accompanied by Government action to secure the immediate cessation of hostilities.

It was the view of General Marshall that, if the Communists expressed agreement to the general terms and procedures outlined, an order for the cessation of hostilities should be immediately issued and the Five-Man Committee and the Committee of Three should meet at once. The Generalissimo subsequently informed General Marshall that after study of this suggestion he had come to the

<sup>35</sup> See annex 93.

<sup>36</sup> See annex 94.

<sup>37</sup> See annex 95.

conclusion that the several agreements indicated should be completed prior to the cessation of hostilities—in brief, the Committee of Three would have to reach complete agreement on the redistribution of troops for demobilization and integration of the armies and the Five-Man Committee would also have to reach an agreement prior to the issuance of a cease-fire order. It was the opinion of General Marshall that such a procedure would completely vitiate the entire purpose of his suggestion. The Generalissimo later informed General Marshall that he had decided not to release any public statement at that time.

#### NATIONAL GOVERNMENT MILITARY ACTIVITIES

During this period the National Government began an advance against Kalgan, an important Communist-held city northwest of Peiping. The Chinese Communists, who had been besieging Tatung (north Shansi) since early August, announced the formal lifting of the siege of that city in order to meet the Government charge that Kalgan was being attacked because the Communists were threatening Tatung. On September 30 the Kuomintang Central News Agency announced that Government forces had begun operations for the purpose of capturing Kalgan. On the same day the Communist Party announced publicly its refusal to name its delegates to the National Assembly unless certain PCC procedures were observed.

It was against this background that General Chou En-lai addressed a memorandum to General Marshall on September 30 pointing to the Government attack on Kalgan, one of the political and military centers of the Communist Party, and stating that if the National Government did not cease military operations against Kalgan the Communist Party would be compelled to presume that the Government was giving public indication of a “total national split” and its abandonment of a peaceful settlement.<sup>88</sup> The Communist Party representatives stated orally that the cessation of the Government drive against Kalgan was a prerequisite to Communist participation in simultaneous meetings of the Committee of Three and the Five-Man Committee.

#### FURTHER DETERIORATION IN THE NEGOTIATIONS

On October 1, 1946, in a conference with Chinese Communist Party representatives at Nanking, General Marshall made it clear to them that he was in agreement with neither the Communist Party's course of action nor that of the National Government. He said that the situation had almost reached the point where he would not continue in the position of a mediator and that he could no longer continue to be a middleman in a prolonged series of accusations and counter-

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<sup>88</sup> See annex 96.



accusations, of proposals and counterproposals. General Marshall stated that he had to give first consideration to the position of the Government that he represented. He pointed out that while he was struggling with the Chinese Government in an effort to have terms proposed which would have a fair chance of acceptance by the Chinese Communist Party, the latter had come forward with an announcement of refusal to name its delegates to the National Assembly. While he was struggling with the Chinese Communists in an effort to reach a basis for agreement, the Government had publicly announced its attack on Kalgan. This type of procedure had continued week after week and month after month. He said that he wished to emphasize that the procedure followed by the Communists was inevitably productive of long delay during which military operations were continuing. He concluded, however, that he was willing to discuss General Chou's memorandum of September 30 with the Government and would do his best to prevail upon the Government to take action which would increase the possibility of peaceful settlement.

General Marshall decided at this time that he would not carry oral messages to the Chinese Communists but would transmit only written communications from the Government.

He felt that the United States Government could not continue to be a third party to the existing procedure under which the Government had been proceeding with its "local operations" for 3 months. He thought it apparent that the National Government's campaign against Kalgan could be justified only on the basis of a policy of force. He felt that he could not put himself in the position of mediating during a continued series of military campaigns and that he must have positive assurances from the National Government that there was a reasonable basis for compromise which offered possibility of success.

#### GENERAL MARSHALL CONSIDERS WITHDRAWING

In view of the existing situation, General Marshall addressed a memorandum to the Generalissimo on October 1, in which, after stating that he was not in agreement with the present course of the Government or of the Communist Party, he concluded:

"I wish merely to state that unless a basis for agreement is found to terminate the fighting without further delays of proposals and counterproposals, I will recommend to the President that I be recalled and that the United States Government terminate its efforts of mediation."

Earlier in the memorandum General Marshall stated that he had carefully considered all the factors involved in the current status of



negotiations and military operations and had also taken into consideration the most recent developments, such as the Communist Party's announcement of its refusal to submit a list of Communist delegates to the National Assembly unless certain PCC procedures were met, the Kuomintang Central News Agency announcement of the Government operations against Kalgan, certain informal proposals presented by Dr. T. V. Soong, and the memorandum of September 30 from General Chou En-lai.<sup>39</sup>

On the following day the Generalissimo gave Ambassador Stuart an oral account of the reply which he expected to make to General Marshall's memorandum. He indicated that he was aware of General Marshall's embarrassment in the existing situation and that he always kept his problems in mind. He felt, however, that it was absolutely essential to the national welfare that the Government gain control of Kalgan and that the occupation of this city by the Government would do much to prevent further military action by the Chinese Communists. The Generalissimo's statement served to convince General Marshall almost completely that the time had come for his recall from China since the Generalissimo was certainly following a definite policy of force under cover of the protracted negotiations. The Generalissimo had now completely reversed the position he had taken in June when he had agreed that the Communists would be permitted to retain possession of Kalgan, which they had occupied shortly after V-J Day.

On October 2 the Generalissimo forwarded to General Marshall a reply to the latter's memorandum.<sup>40</sup> Referring to General Marshall's memorandum the Generalissimo said that

"the Government hereby, with all frankness, expresses its maximum concessions in regard to the solution of the present problem".

These "maximum concessions" were as follows: (1) While the Government had originally agreed that the Communist Party be allocated 8 seats and the Democratic League 4 seats on the State Council, it would now offer 1 seat to a member of the independent group who would be recommended by the Chinese Communist Party and agreed upon by the Government. This would make a total of 13 seats held by Councillors satisfactory to the Communist Party, which should without delay submit the lists of its members on the State Council and of its delegates to the National Assembly. (2) The location of the Communist troops under the military reorganization plan should be determined immediately and the Communist forces should enter such locations according to agreed dates, the foregoing to be decided upon

<sup>39</sup> See annex 97.

<sup>40</sup> See annex 98.

by the Committee of Three and carried out under the supervision of the Executive Headquarters. The memorandum concluded that if the Communists agreed to these two proposals "a cease-fire order should be issued by both sides, when agreement has been reached thereon."

The reply of the Generalissimo involved lengthy procedures during which the attack on Kalgan would be carried to its conclusion and it omitted any reference to the disposition of Government troops, which was a requirement of the military reorganization agreement of February 25. General Marshall did not think that the United States Government could afford to be a party to a course of questionable integrity and he felt that this fact should be made unmistakably clear to the Chinese Government.

In a long conference on October 4, the Generalissimo informed General Marshall that his departure from China was unthinkable and that he could not possibly cease his efforts at mediation, since the crisis in China was the most important in the world and his efforts were of great historic significance. General Marshall explained that his own actions and position and those of the United States Government as represented by him were in question under the existing situation. He stated that he was convinced that a campaign of force was in progress and that negotiations could be described as a cover for this campaign—under such circumstances he could no longer participate in the negotiations. He continued that in June the Government had agreed that Kalgan would be left in Communist hands at a time when the Government was in a much weaker military position than at this time—Chengte had now been captured, most of Hopei and Jehol Provinces had been occupied, Government troops had advanced well beyond Peiping in the direction of Kalgan and Government forces were on the verge of occupying Chihfeng and Tolun, both important strategic points. The present procedure, said General Marshall, clearly meant a campaign of force and not a settlement by negotiation. General Marshall pointed out that at the end of June he had opposed the whole procedure in prospect for July and August, when the Generalissimo had declined to accept the agreements openly reached and had stated there would be only local fighting in China proper and no fighting in Manchuria. He continued that he had not only disagreed with that conception but had thought that it inevitably meant the development of a full-fledged civil war beyond Government or Communist control for a long time to come. This conference ended without any indication on the part of the Generalissimo that he would halt the drive against Kalgan. General Marshall informed the Generalissimo in conclusion that he regretted to inform him that nothing had transpired in the discussion to cause him to alter his point of view—in fact, he was the



more convinced that the United States Government was being placed in a position where the integrity of its actions could be successfully questioned and that he must, therefore, recommend to President Truman his recall.

On the following day General Marshall forwarded a message to Washington recommending his recall, the pertinent portions of which are as follows:

"I feel that despite the present vicious Communist propaganda of misrepresentation and bitter attacks and despite the stupid failure of the Communists to agree to the Five-Man Committee under Dr. Stuart, actuated in our opinion through fear of the very delays which have resulted from this refusal, the United States Government cannot afford before the world to have me continue as mediator and should confidentially notify the Generalissimo accordingly. I believe that this is the only way to halt the military campaign and to dispel the evident belief of the Government generals that they can drag along the United States while carrying out their campaign of force. It is suggested for your approval that the following message be sent by the President to the Generalissimo:

"General Marshall recommends that his mission be terminated and that he be recalled. He has explained to you that he feels that a continuation of mediation under present circumstances of extensive and aggressive military operations would place the United States Government in a position where the integrity of its actions as represented by him would be open to serious question. I deplore that his efforts to bring peace to China have been unsuccessful, but there must be no question regarding the integrity of his position and actions which represent the intention and high purpose of the United States Government. I, therefore, with great regret have concluded that he should be immediately recalled.'"

When word reached the Generalissimo through Ambassador Stuart of General Marshall's action, the Generalissimo expressed his willingness to stop military advances against Kalgan for a period of five days, possibly even longer if the American mediators insisted, on condition that the Communist Party would immediately participate in meetings of both the Five-Man Committee and the Committee of Three and that Kalgan would be the first issue negotiated. The Generalissimo also requested that General Marshall and Dr. Stuart discuss the matter with him on the following morning. Upon the receipt of this message from the Generalissimo, General Marshall requested the Department of State not to transmit to the President his recommendation that he be recalled, pending the receipt of further instructions.



## THE KALGAN TRUCE PROPOSAL

In discussion with the Generalissimo of the Kalgan truce proposal, General Marshall made clear that a short truce would not allow time for successful negotiations, particularly with the threat of the resumption of aggressive military action, and a long truce would be too difficult to control in view of the complications to be faced by the military commanders in the field and their own aggressive attitudes. General Marshall suggested that the proposal which he had presented to the Generalissimo on September 27 be considered—this involved an immediate cessation of hostilities once the Communist Party agreed to the procedure specified. The Generalissimo said that he was unwilling to agree to this proposed procedure, and insisted that the cessation of hostilities must depend upon the successful completion of the meetings of the Committee of Three and the Five-Man Committee. The Generalissimo said he would, however, order a truce of five days on the basis of Communist agreement to meetings of the Committee of Three and the Five-Man Committee as outlined in his memorandum of October 2. After some discussion, the Generalissimo agreed to extend the truce period to 10 days and indicated that if, as the end of the truce approached, it appeared that the Chinese Communists were in a mood to negotiate, he would lengthen the period. He requested that the truce be announced as a proposal from General Marshall and Ambassador Stuart rather than from the National Government. General Marshall and Dr. Stuart agreed to this request even though it was not their proposal—it merely represented the best terms they could obtain.

General Marshall prepared a memorandum<sup>41</sup> outlining the conditions of the truce as agreed to by the Generalissimo and sent it to Dr. Stuart, who communicated it orally to a Chinese Communist Party representative, and on the following day sent a copy to this Communist representative and an additional copy to General Chou En-lai at Shanghai. The conditions of the truce were as follows: (1) The purpose of the truce was "to carry out the two proposals of the Generalissimo" in his communication to General Marshall of October 2; (2) during the truce period Executive Headquarters field teams would check on its observance; and (3) public announcement of the truce would be made by Dr. Stuart and General Marshall without any announcement from the two parties.

At the same time General Marshall requested the Department of State to inform President Truman of the foregoing events and of General Marshall's decision to withdraw the recommendation for his recall.

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<sup>41</sup> See annex 99.

The Chinese Communist Party rejected this truce proposal on the grounds that there should be no time limit to the truce period and that discussions in the Committee of Three and the Five-Man Committee should not be limited to the two proposals in the Generalissimo's memorandum of October 2 since discussion of these topics during a truce would be considered as negotiation under military coercion.<sup>42</sup>

#### THE MARSHALL-STUART STATEMENT OF OCTOBER 8, 1946

The Chinese Communist Party's rejection of the truce proposal placed General Marshall in a position entirely opposite from the one he had previously held in opposing continued aggressive military action. It was now the Government which had offered at least a temporary cessation of hostilities and the Communists who declined. General Marshall and Ambassador Stuart then issued a joint public statement on October 8 in regard to the situation.<sup>43</sup> The statement began with a description of General Chou En-lai's memorandum of September 30 on Government military operations against Kalgan and the Communist attitude thereto. It was a recital of the negotiations from the time of the receipt of General Chou's memorandum asking for a cessation of the attack on Kalgan to the time of the Communist Party rejection of the 10-day truce proposal.

#### THE COMMUNIST POSITION

In discussions with General Marshall and Dr. Stuart, Communist Party representatives stated the Communist views: The Communist Party wanted a definite cessation of the attack on Kalgan and the only way for the Government to show its sincerity was to withdraw its troops to their original positions. The Communists had hoped that General Marshall and Dr. Stuart would be able to make the Government realize that it was assuming the role of a victor over the vanquished and that they would also be able to make the Government change its policy of war, but the Communists had now lost hope. They appreciated very much the efforts of General Marshall and Dr. Stuart, but China, they said, was now in the midst of civil war. The Communists hoped that General Marshall and Dr. Stuart would, on the one hand, have the United States Government cease its aid to the Chinese Government and, on the other hand, "have a fair mediating process which would be acceptable to both sides." General Marshall replied that he did not accept this statement regarding the United States Government and that he did not like the inference of the second portion of this statement. He concluded that he very much feared that his efforts in the negotiations had terminated.

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<sup>42</sup> See annex 100.

<sup>43</sup> See annex 101.



In view of the unsatisfactory nature of this conversation and with the desire to do everything possible at this critical period, General Marshall proceeded to Shanghai to see General Chou En-lai. In their conversation it developed that some misunderstanding had arisen from the wording of the terms of the truce proposal which had led to uncertainty whether the Communist Party was to give consideration to the two proposals of the Generalissimo or to "carry out" such proposals. General Chou indicated that the two proposals of the Generalissimo were from the Communist viewpoint unacceptable conditions. One of them, he said, meant that the Communist Party could not exercise the veto power to prevent revision of the PCC resolutions and the other proposal meant that, while the Communist troop locations would be fixed, the Government armies would be free to move. General Chou concluded that it was the view of the Communist Party that only a lasting truce would demonstrate that the Government did not desire a "total split." He then presented to General Marshall a three-point military and eight-point political proposal which, he said, represented the Communist stand on military and political issues. The military proposal required that all troops resume the positions held in China proper as of January 13 and in Manchuria as of June 7, that the location of all troops until the time of army reorganization should be fixed and that Government troops moved after January 13 should be returned to their original locations. The political proposal consisted of detailed points for discussion by the Five-Man Committee and the PCC Steering Committee, which all were related to the PCC resolutions.

General Marshall emphasized to General Chou that the Generalissimo had not planned the truce for the purpose of gaining time for the movement of troops and munitions, and concluded that after hearing the views of General Chou it would seem that his mediation efforts were futile and there was no practical basis for further action on his part. General Marshall reminded him that some time ago he had indicated that if the Communist Party did not trust his impartiality as mediator it had merely to say so and he would withdraw. General Chou said that he would make a written reply to the Generalissimo, and that, although he had not welcomed the joint statement issued by Ambassador Stuart and General Marshall, he wished to make clear that he did not cast any reflection on General Marshall's actions throughout the entire period of mediation.

On October 9 General Chou En-lai replied to the Generalissimo's memorandum of October 2 and the Kalgan truce proposal in a memorandum addressed to General Marshall.<sup>44</sup> This memorandum con-

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<sup>44</sup> See annex 102.



cluded that the Government should cease its attack on Kalgan and that if the Government should permanently call off such an attack, the Communist Party was willing to participate in meetings of the Committee of Three and the Five-Man Committee or the PCC Steering Committee to have simultaneous discussions of (1) the cessation of hostilities and (2) the implementation of the PCC resolutions. The memorandum also included the military and political proposals made by General Chou to General Marshall at Shanghai.

#### GENERALISSIMO CHIANG'S STATEMENT OF OCTOBER 10, 1946

On October 10, 1946, the anniversary of the founding of the Chinese Republic, the Generalissimo made a speech,<sup>45</sup> in which, referring to the negotiations, he made statements along the following general lines:

The Government asked the Communist Party to abandon its plot to achieve regional domination and disintegration of the country by military force and to participate along with all other parties in the National Government and the National Assembly. It was the hope of the Government that the various political parties and groups would submit their lists of candidates to the State Council and of delegates to the National Assembly. The Government desired a total and permanent cessation of hostilities, but during the past 3 months the Communists had rejected all the proposals of the Generalissimo and had also turned down the truce proposal presented by General Marshall and Dr. Stuart; the Government was not, however, going to abandon its policy of a peaceful settlement. It would continue to hope and seek for a settlement by mediation and consultation.

#### THE FALL OF KALGAN AND THE SUMMONING OF THE NATIONAL ASSEMBLY

During this period a group of representatives of the Democratic League and the China Youth Party proceeded to Shanghai for the purpose of inducing General Chou En-lai to return to Nanking. Just as it appeared that their efforts would succeed, a series of events occurred which aroused bitter feeling on the part of the Chinese Communists and one of which created strong opposition from all minority parties. On October 10, Government forces captured Kalgan with little or no opposition from Communist troops and on the same day occupied Chihfeng, the last Communist stronghold in Jehol Province. Government troops at this time were also reported to be on the verge of occupying additional Communist-held towns in north Kiangsu. On the same day the Government announced the resumption of na-

<sup>45</sup> See annex 103.

tionwide conscription, which had been suspended following the Japanese surrender in August 1945. Even after these events, General Chou En-lai was said by Dr. Sun Fo, President of the Legislative Yuan, to be ready to return to Nanking, but the issuance by the Government on October 11 of a mandate announcing that the National Assembly would be convened on November 12, as scheduled, caused General Chou to cancel his plans. This announcement also resulted in strong criticism from the other minority parties, as they considered it evidence of unilateral and dictatorial action on the part of the Government. They asserted that agreement had been reached on April 24 in discussion between representatives of all parties and the Generalissimo for postponement of the National Assembly, then scheduled for May 5, and that it was understood that the date for convening the Assembly would be decided by discussion among all parties. The National Government explained that its action was in accordance with Kuomintang regulations, which required formal notification and confirmation of the date of the National Assembly one month prior to its convocation. The result of this series of events was to cause the cancellation of the plans for the return of General Chou and the minority party representatives to Nanking.

#### DRAFT STATEMENT PREPARED FOR THE GENERALISSIMO

The Generalissimo on October 13 indicated to General Marshall and Ambassador Stuart that he wished them to consider the possibility of his making a statement, such as that previously suggested by General Marshall on September 27, but modified in accordance with recent changes in the situation. General Marshall, referring to changes in the situation, pointed out that the important factor was the immediate cessation of hostilities and that, even if the Communists were forced to submit to various agreements by the pressure of Government military action, there could be no healthy results from political negotiations and reorganization of the Government as the bitterness engendered thereby would be too deep and the spirit of revenge and distrust too great. The Generalissimo replied that he could not agree to an unconditional cessation of hostilities without some evidence for the people and the Government leaders that some advantage had been gained for the reorganization of the Government. He mentioned the submission by the Communists of their list of delegates to the National Assembly as an example.

General Marshall reminded the Generalissimo that in early July the latter had said that it was first necessary to deal harshly with the Communists and later, after 2 or 3 months, to adopt a generous attitude. It seemed to General Marshall that after more than 3 months with the



Government in possession of all the important strategic points, that the time had come for the generous attitude of which he had spoken. The Generalissimo agreed to this but repeated his previous statement regarding the necessity of obtaining certain advantages prior to the cessation of hostilities.

Pursuant to the Generalissimo's suggestion, General Marshall and Dr. Stuart drew up and forwarded to the Generalissimo a draft of a statement for release by him, including therein the demand by the Generalissimo for submission of the names of the Communist delegates to the National Assembly. This draft statement, based upon the previous draft presented to the Generalissimo by General Marshall on September 27, contained the following points: <sup>46</sup>

The Five-Man Committee and the Committee of Three to hold simultaneous meetings immediately with the following understandings:

The various agreements tentatively reached by the Committee of Three during the June negotiations to be put into effect and the tentative agreement reached at the same time for the redistribution of troops in Manchuria to be confirmed.

Government troops north of the Yangtze River to continue in occupation of places now under their control until the Committee of Three reached agreement for the redistribution, reorganization and demobilization of the armed forces.

The PCC Steering Committee to confirm without delay any understanding reached by the Five-Man Committee.

Questions of local government to be settled by the newly organized State Council.

The Constitutional Reviewing Committee to be reconvened immediately and the agreed draft to be submitted to the National Assembly as the basis for its action.

Concurrent with the cessation of hostilities, which was to be effected immediately following the Communist Party's agreement to the foregoing procedure, the Communist Party to announce its intention of participating in the National Assembly by publishing the list of its delegates thereto.

#### EIGHT-POINT PROPOSAL BY THE GENERALISSIMO, OCTOBER 16, 1946

On October 16 the Generalissimo made a public statement <sup>47</sup> in which he announced the Government's views and presented an eight-point proposal, upon acceptance of which by the Chinese Communist Party the National Government was prepared to arrange for the immediate cessation of hostilities. The Generalissimo referred to his public state-

<sup>46</sup> See annex 104 for full text.

<sup>47</sup> See annex 105.



ment on October 10, in which he had said "the Government has always adhered to the political solution of our domestic political problem and would not give up this policy of peaceful settlement under whatever circumstances," and continued that, despite the recent Communist rejection of Government proposals, the Government would not abandon its policy of "peaceful settlement" and would still seek a settlement by mediation and consultation. The Generalissimo's eight-point proposal was very similar to the proposals set forth in the draft statement prepared by General Marshall and Dr. Stuart, the chief difference being (1) the deletion of the point regarding the separation of opposing troops in close contact upon which tentative agreement had been reached in June and (2) the exclusion of Manchuria from the proposal providing for the settlement of the question of local government by the State Council. One point required that the tentative agreement reached for the redistribution of troops in Manchuria be carried out in accordance with a fixed schedule without delay while the draft statement had provided only that this tentative agreement was to be confirmed. The proposals by the Generalissimo were also forwarded to General Marshall for transmission to the Chinese Communist representatives on October 17.

Despite the similarity of the Generalissimo's eight-point proposal to the draft statement submitted to him on September 27 by General Marshall, the lapse of time and the military events intervening, such as the occupation of Kalgan and the opening of a Government attack on Antung and Chefoo at the time of the announcement of this eight-point proposal, largely nullified most of the possibilities for good results.

#### THE COMMUNIST REPLY

The initial Communist reaction to the Generalissimo's eight-point proposal was unfavorable, as indicated by General Chou En-lai at Shanghai to a group of minority party leaders and by a Communist radio broadcast from Yenan. The Third Party Group (minority party leaders) were endeavoring to persuade General Chou to return to Nanking from Shanghai and three high-ranking National Government officials had also gone to Shanghai to confer with General Chou. General Marshall was of the opinion that the American mediators should stand aside at this time and encourage Chinese efforts to reach a settlement, with the Third Party Group in the position of the middleman. On October 20 General Chou En-lai and the members of the Third Party Group decided to return to Nanking on the following day. Apparently no new understanding had been reached, but the spirit of the conferences in Shanghai appeared to have offered the possibility of continued negotiations.

In early October the Generalissimo had informed General Marshall of his plans to proceed to Formosa for a brief visit on October 20. When, however, it was learned that General Chou En-lai and the Third Party Group had decided to return to Nanking, the Generalissimo remained in Nanking until their arrival and had a brief talk with them before departing for Formosa on the same day. Prior to his departure, he informed General Marshall that he would be absent for only a few days and that he would return at any moment if his presence in Nanking were desirable in connection with the negotiations.

During this period fighting continued in various parts of North China, although the situation remained relatively quiet in Manchuria except for small-scale actions and Communist disruption of lines of communication. Communist actions along the Peiping-Hankow Railway line, intermingled with general fighting in the southern Hopei area crossed by this line, were reportedly devoted largely to the destruction of the rail lines. Government forces were apparently centering their attention on coal mining areas and they occupied two important coal mining centers during this period. Other high lights of this period were the Communist-organized mass demonstrations in Harbin and Tsitsihar in northern Manchuria directed toward the withdrawal of American troops from China and criticism of American interference in internal Chinese affairs. Further indications of a deterioration in the situation were seen in the gradual evacuation of Communist Party personnel from Nanking, Shanghai and Chungking to Yen-an in United States Army planes furnished at the request of the Communist delegation in Nanking.

There still remained, however, some basis for hope in the situation in that General Chou En-lai had finally returned to Nanking from Shanghai and in that the Third Party Group, whose chief weapon in the discussions both with the Government and the Communists was the question of participation or nonparticipation in the National Assembly, was actively engaged in the mediation effort. This enabled the American mediators to remain in the background.

On October 24, General Chou En-lai informed Ambassador Stuart that the Chinese Communists could not accept the Government eight-point proposal.

#### THE SPREADING OF HOSTILITIES

In the meantime military activity showed no signs of abating. Government forces occupied the last of the main stations on the Tsinan-Tsingtao Railway and Government forces were moving north along the Peiping-Hankow Railway in southern Hopei. Most serious was the opening of a Government drive on Antung in Manchuria, from



which the Generalissimo was now insisting that the Communists withdraw within 15 days after the issuance of a cease-fire order. Communist propaganda attacks on the United States continued, demanding the immediate withdrawal of all American troops and of American support from the National Government. Further indications of the deterioration in the situation were seen in the reduction of Communist personnel at the Executive Headquarters at Peiping to the point that the Communist branch was practically inoperative. The Communists had also withdrawn their members from all field teams in Government-occupied areas in China proper except at four points.

#### ATTEMPT AT MEDIATION BY THE THIRD PARTY GROUP

In a discussion of the situation with General Marshall on October 26, General Chou En-lai said that if the Government military advances continued there would be no necessity for continued negotiations and the Committee of Three should take action in this matter. Further questioning revealed that General Chou did not consider a meeting of the Committee of Three the issue, although he did not object in any way to such a meeting. This conversation revealed the extent to which his attitude was governed by the deep suspicion of any terms presented by the National Government, even when it was pointed out to him that certain of the National Government's eight points represented terms desired by the Communists on which the National Government had not previously agreed. General Marshall pointed out to him that the distrust was so great on both sides that there was all the more need to find some method on which both could agree for the termination of the hostilities.

He continued that the situation presented an almost impossible prospect for agreement unless divested of every detail not vital to either party and that it was hoped that the Third Party Group might be able to find some basis for compromise, a course infinitely better than a mediation procedure by Americans since it would then be a settlement by the Chinese themselves.

General Chou indicated that if the Third Party Group could produce a compromise proposal with a sound basis he would discuss it with them, but that, in view of the military situation and Government attacks in various areas, there would be no basis for any negotiations if this situation continued. In that event, he said, his presence in Nanking would be useless.

General Marshall pointed out that he and Dr. Stuart had tried every possible means of stopping the hostilities without success—their proposal for the Five-Man Committee, to which the Government finally agreed but to which General Chou would not agree; the



Kalgan truce proposal, which General Chou had characterized as capitulation; and now another somewhat similar situation in which it was hoped that hostilities could be ended through the efforts of the Third Party Group.

The continued absence of the Generalissimo from Nanking, together with the open resumption of the Government military campaign in Manchuria, was detrimental to the whole situation. The Third Party Group was becoming discouraged since its three-point proposal<sup>48</sup> for a settlement of the differences had been rejected by the Generalissimo, who had told them that they should have adopted his eight-point proposal of October 16. General Chou En-lai had unofficially accepted practically all of this proposal, but the news of the Government capture of Antung caused him to say that he must await instructions from Yenan. The Third Party Group then recommended that there be an informal discussion by National Government, Communist, and Third Party Group representatives. The Generalissimo agreed but insisted that his eight-point proposal constitute the agenda. General Chou En-lai agreed and the meeting was scheduled for November 4.

On October 28 in a discussion of the situation with the Generalissimo, General Marshall described the deep seated distrust the Communist Party had of the motives of the Generalissimo and the Kuomintang leaders, to which had been added their distrust of the American mediators. He pointed out that the Communists had no intention of surrendering and that, while they had lost cities, they had not lost armies, nor was it likely that they would lose their armies since they had no intention of making a stand or fighting to a finish at any place. He continued that the Generalissimo might be able to take Harbin but that the Government would then be in for endless trouble.

The Generalissimo replied that the time had come to halt the fighting but he did not wish this to be conveyed to the Third Party Group. General Marshall then explained that this group appeared to be the only hope in the situation and urged the Generalissimo to show them every consideration and build up their prestige by making concessions and encouraging them to speak frankly to him. He further pointed out that they had become so discouraged by the failure of their efforts that they had expressed the desire to withdraw from the negotiations and return to Shanghai.

On October 30 the Generalissimo informed Ambassador Stuart that he was willing to make two additional concessions:

<sup>48</sup> See annex 106.

(1) The cease-fire order would apply to Manchuria as well as to China proper. Military redistributions would follow the June settlement and local administration would be dealt with uniformly in all of China.

(2) Cities and *hsien* along the Changchun Railway trunk line, except for those already under occupation by the Government, would not be taken over before the reorganization of the Government.

The arguments of the Communist Party at this time were not consistent. They had insisted that the Government military leaders were determined to settle the issues by force, yet the Communists were apparently risking the continuation and expansion of the fighting in the hope that the Government would make concessions in order to obtain the list of Communist delegates to the National Assembly. Furthermore, the issues of the State Council and local government were not now at this stage as difficult to solve as they had been in June and it seemed that the principal outstanding issue was the reorganization of the Executive Yuan. The Communists and the Democratic League seemed to attach great importance to this issue as a condition precedent to the convening of the National Assembly. In view of the discouragement of the Third Party Group, the problem was to make this Group aware of the fact that the military settlement was greatly affected by political issues and that the members of the Group should stand together and remain strong under the pressure of the Government and the Communist Party to divide them. The Government continued to be unwilling to agree to the cessation of hostilities until the Communists submitted a list of their delegates to the National Assembly and the Communists were willing to submit such a list only to a reorganized Government, which to them meant the reorganization of the Executive Yuan. The Generalissimo had indicated that he would not reorganize the Executive Yuan until after the meeting of the National Assembly.

Several developments at this time had a bearing on the negotiations. General Chou En-lai had agreed to return to Nanking from Shanghai only if the Third Party Group would stand with the Communist Party in refusing to nominate delegates to the National Assembly until the Government had been reorganized in strict accordance with the PCC resolutions. This was proving very embarrassing to the Third Party Group. The Group were urging General Marshall and Dr. Stuart to take the lead again in the negotiations, but the American mediators declined to do so because it was very important that, if possible, a Chinese neutral group act in mediation, at least on political questions.

Although the National Government had agreed to participate in an informal discussion of the various issues with the Communists and the Third Party Group, the Government representatives did not



attend the meeting on November 4 and the Third Party Group merely asked General Chou to state the Communist demands. This he did very completely, covering every issue.

On November 5 the Generalissimo informed General Marshall and Ambassador Stuart that the absence of the Government members from the meeting previously agreed to had resulted from a number of indications that the Communists wished to eliminate American mediation. General Marshall expressed regret that the failure of the National Government to participate in the meeting was due to this reason and stated that the Communist Party either accepted the American mediators or did not—they either trusted the American mediators or did not trust them and Government action could not force a decision in this particular manner. The Generalissimo then said that the time had come to stop the fighting and that he was prepared for an unconditional termination of hostilities. He expressed a desire to have General Marshall and Ambassador Stuart advise him with respect to the announcement of the cessation of hostilities, together with a reference to the convening of the National Assembly, which he hoped the minority parties would attend.

#### GENERALISSIMO CHIANG'S STATEMENT OF NOVEMBER 8, 1946

General Marshall and Dr. Stuart, therefore, prepared a draft statement which represented the views of the Generalissimo regarding the termination of hostilities and met the issues which were certain to be raised by the minority parties regarding conditions under which the National Assembly would meet and adopt a constitution. (At the request of the Generalissimo, General Marshall had frequently, during the negotiations, prepared for his consideration and possible use drafts of statements or of proposals which might be introduced into the discussions. In so doing, General Marshall had acted as a staff officer might on behalf of the Generalissimo in drawing up documents containing the latter's views.) Meanwhile, they received a draft of a statement prepared by the Generalissimo which they believed would further complicate the situation since it was highly provocative, lengthy, argumentative and difficult to understand. Furthermore it would not terminate the fighting in a way that promised more than a threat of future use of force.

On November 7 General Marshall and Dr. Stuart met with the Generalissimo at the latter's request and presented to him a Chinese translation of their draft.<sup>49</sup> They expressed the opinion that his draft statement would merely aggravate the situation in China. The Gen-

<sup>49</sup> See annex 107.



Generalissimo then explained that in preparing the draft he had had to take into consideration a number of important points:

(1) While there had previously been a divided opinion in the Government regarding the proper course to be followed, there was at this time a complete unanimity of opinion that a policy of force was the only course to follow.

(2) He must give careful consideration in the organization of the National Assembly to the delegates who had been legally elected in 1936 and were now assembled in Nanking and not emphasize the dominant importance of the PCC resolutions in contrast to the 1936 draft constitution.

(3) He must also give careful consideration to the morale of the Army, considering the losses that had been recently sustained, if they were to be greeted by the announcement of an unconditional cessation of hostilities which amounted to the virtual unconditional surrender of the National Government's position and contentions.

The Generalissimo continued that he could not support the statement in the draft prepared by General Marshall and Dr. Stuart regarding an unconditional termination of hostilities before his military and political leaders and further explained that he stood practically alone in the belief that matters could be settled by peaceful negotiations and the fighting stopped. The Generalissimo then asked General Marshall and Dr. Stuart to reconsider their draft in the light of his statements and advise him accordingly. General Marshall replied that he would need an opportunity to consider with Dr. Stuart the points of view expressed by the Generalissimo as he was seriously concerned whether he should participate, as a representative of the United States Government, in the preparation of a paper in accordance with the points of view he had indicated, which were contrary to the views of General Marshall and those, he thought, of the United States Government.

In submitting a redraft of the statement to the Generalissimo on November 8, General Marshall stated that it should be clearly understood that the redraft did not have his approval as a representative of the United States Government. He continued that he had merely endeavored to help the Generalissimo as staff officers might assist him in drafting his views in the least provocative manner but that the redraft did not have his approval since he was in almost complete disagreement with the attitude of the Government military leaders.

The statement issued by the Generalissimo on November 8 was modified, but the method proposed for stopping the fighting was inconclusive and still held, in effect, a threat of renewed battle to force a

political decision.<sup>49a</sup> The statement expressed hope that the State Council would be reorganized while the final redraft prepared by General Marshall and Dr. Stuart had indicated that it should be reorganized in order to carry out its functions for the reorganization of the Government in accordance with the PCC resolutions. This would include the reorganization of the Executive Yuan, but the Generalissimo's statement merely said that such a reorganization would not take place prior to the meeting of the National Assembly and made no mention of the PCC resolutions. As a result of a meeting between General Chou En-lai and the Third Party Group, the former, under date of November 8, forwarded to General Marshall a letter<sup>50</sup> which, in effect, constituted a reply to the eight-point proposal of the Generalissimo. The letter was noncommittal and referred only casually to the eight points, but it did hold open the door for continued negotiations and peace. General Marshall transmitted a copy of this letter to the National Government on the same day.

#### CEASE-FIRE ORDER BY THE NATIONAL GOVERNMENT

During the period preceding the announcement by the Generalissimo of his issuance of a cease-fire order to Government troops, there had been no improvement in the military picture. Fighting continued in North China and the Government forces occupied Tunghua in Manchuria, which had been one of the cities from which the Government had demanded the withdrawal of Communist forces at the time of the Generalissimo's absence in Formosa. Another factor of considerable importance in the situation was the decreased effectiveness of the Executive Headquarters as a result of the vicious Communist propaganda attacks on the Americans and the anti-American demonstrations and campaigns staged in Communist-held areas.

The issuance by the Generalissimo of a cease-fire order set the stage, however, for the convening of the National Assembly against a background of peace. The Government approach to the National Assembly was not, however, sufficiently in accordance with the PCC resolutions and meant that, if all the delegates appeared, the Kuomintang would have an overwhelming majority, and a simple majority vote could determine the character of the constitution without much consideration of the fundamental guarantees agreed to in the PCC. The Government had been unwilling to agree to any temporary adjournment after the formal convocation, as proposed by General Marshall and Dr. Stuart, and had passed up an excellent

<sup>49a</sup> See annex 108.

<sup>50</sup> See annex 109.



opportunity of capitalizing in a conciliatory manner on the proposal to stop the fighting.

#### CONVENING OF THE NATIONAL ASSEMBLY, NOVEMBER 15, 1946

On November 10 the National Government requested a meeting of the Committee of Three. In view of the failure to reach any agreement regarding the National Assembly, General Chou En-lai was reluctant to attend the meeting but finally agreed to an informal meeting which was held on November 11.

General Chou En-lai stated that it appeared futile to proceed with arrangements for the termination of hostilities when unilateral action of the Government in convening the National Assembly contrary to the PCC resolutions meant a definite "split" in China. After the Government representative presented its proposal in detail, General Chou finally agreed to transmit the proposal to Yen-an for prompt reply and indicated that he would study the matter and proceed on the basis that whatever the political impasse at this time, he would join in working for an agreement for the formal termination of hostilities.

Meanwhile an informal meeting of the PCC Steering Committee was held, the first since April 24, at which the Communist Party requested a postponement of the National Assembly until the end of November. This request was transmitted to the Generalissimo by a prominent nonparty member of the Third Party Group.

The PCC Steering Committee also practically reached agreement on the composition of the State Council and the Committee appeared to have agreed that the reorganization of the Executive Yuan should be planned for prior to the National Assembly but not announced until after the adjournment of the Assembly. At this point the Government stopped the meetings of the Committee, but an informal meeting was held on November 12 which may have had some connection with the decision by the Generalissimo on November 11 to delay the convening of the National Assembly for three days. He informed Dr. Stuart that at the urgent request of the non-party delegates he had agreed to this postponement and that they had promised that, if such a delay were granted, the Third Party Group would submit their lists of delegates and possibly the Communist Party would also do so. The Communist Party informed the Government, however, on November 12 that it would not participate in nor did it approve of the National Assembly since it had been convened and also postponed unilaterally by the Kuomintang.

The National Assembly was formally convened on November 15 with a decidedly limited representation from non-Kuomintang groups.



The names of additional delegates from non-party and Youth Party personnel were submitted on the night of November 15, but the Communist Party and the Democratic League were not represented. The postponement for 3 days had resulted in the promise of attendance by some of the Third Party Group, but it had had the effect of disrupting the unity of action of that Group and had seriously, if not fatally, weakened their influence for good as a balance between the two major parties.

The address of the Generalissimo at the opening of the Assembly was mild in tone and was devoted chiefly to the achievements and objectives of the National Government.<sup>51</sup> General Chou En-lai, however, on November 16 issued a statement to the press regarding the National Assembly, in which he was strongly critical of the Kuomintang, charged that its action in convening the Assembly was contrary to the PCC resolutions, and gave notice that the Communist Party did not recognize the Assembly. He also stated that the door of negotiations had been "slammed" by the Kuomintang authorities.<sup>52</sup>

#### THE END OF AMERICAN MEDIATION

General Chou En-lai called on General Marshall on November 16 and asked for transportation for himself and other Communist representatives to Yen-an during the following week. He indicated that he was leaving some members of the Communist delegation at Nanking and that he expected to study the situation with the Communist leaders at Yen-an. He expressed the wish that the Executive Headquarters be continued for the time being even though there was little it could do. He expressed fear that the National Government would undertake offensive operations against Yen-an and said that if this occurred it would mean the end of all hope for a negotiated peace. He also asked that transportation be provided for Communist personnel in the Executive Headquarters in Peiping and Changchun and in Nanking and Shanghai to evacuate them to points of safety. General Marshall stated that American planes would be provided for the purposes requested by General Chou and added that, while he had had no information of National Government plans for an attack on Yen-an, he would deplore such action and oppose it strongly. He also said that if such an attack occurred he would consider that it terminated his mission.

In conclusion, General Marshall asked General Chou En-lai to take up with the Communist leaders the question of his continued mediation. He said that it was useless for him to endeavor to mediate if he

<sup>51</sup> See annex 110.

<sup>52</sup> See annex 111.

were not trusted as being sincere in an effort to be impartial and that under such circumstances it would be useless for him to remain in China. General Marshall stated that he wished General Chou to determine formally from the Communist leaders at Yen-an whether specifically they wished him to continue in his mediation role and asked that the matter be viewed as a plain business proposition without regard to Chinese considerations of "face" since he was not interested in "face." He explained that his sole interest was the question of whether he could render some service to China by way of mediation. General Chou stated that he sympathized with the request by General Marshall and that he would place the question before the appropriate Communist authorities at Yen-an.

General Chou En-lai departed for Yen-an on November 19 in a United States Army plane. His departure brought to an end the long period of negotiations and discussions begun in January 1946. The door had not been closed to further negotiation by either side, but it seemed likely that a fresh start would have to be made before there would be any possibility of bringing about an understanding between the two parties. The attitude of the Communist Party and the Democratic League indicated their belief that the PCC resolutions had been totally destroyed and that it would be necessary to convene another conference of all parties similar to that held in January.

It seemed apparent to General Marshall that the Government military leaders were in the saddle and were thoroughly convinced that the Communists would not carry out any agreement reached. The strong political clique in the Kuomintang was firmly convinced that the Communists would merely disrupt any government in which they participated. With these two forces working together and the Communist repulse of every overture General Marshall and Dr. Stuart had persuaded the Government to make, the existing tragic situation had developed. It seemed to General Marshall that the Government had been using the negotiations largely for its own purposes. Following the breakdown of the negotiations in June, the Government had been waging war on a constantly increasing scale, heavily absorbing Government funds. These military expenditures, which were consuming about 70 percent of the total Government budget, served to increase inflation at the same time the Chinese Government was asking the United States for large loans.

The expanded currency continued to go into commodity speculation and hoarding on an increasing scale, and wholesale prices had risen about seven times during the year. In an abortive effort to combat inflation by absorbing currency from circulation, the Government



engaged in heavy sales of gold taken from its reserves. In addition, despite the very considerable imports that were made available through UNRRA and other foreign aid measures, the Government's foreign exchange reserves were drawn on to procure imports for which the depressed level of exports and inward remittances had failed to provide the necessary means of payment. At the end of 1946, official Chinese reserves of gold and United States dollars had been depleted by approximately 450 million dollars, or about 50 percent.

On the other side, the Communist Party had, in General Marshall's opinion, defeated itself through its own suspicions, refusing to agree to possible procedures which might well have resulted in a settlement of the issues. This had been particularly true of its rejection of the proposal for the Five-Man Committee under Ambassador Stuart, which might have led to organization of the State Council and the carrying out of the other PCC agreements, and of its almost contemptuous rejection of the Kalgan truce proposal. It had misconstrued each overture arranged by General Marshall and Dr. Stuart and had apparently been convinced by its own campaign of public misrepresentation of American intentions and actions. It also chose to ignore in discussion and in criticisms of Government actions its own military and other actions that were violations of agreements.

At this time a high-ranking Government official was urging upon General Marshall the need for American financial assistance to meet the serious economic situation. General Marshall was very emphatic in stating to him that it was useless to expect the United States to pour money into the vacuum being created by the Government military leaders in their determination to settle matters by force and that it was also useless to expect the United States to pour money into a Government dominated by a completely reactionary clique bent on exclusive control of governmental power.

Another ranking Government official approached General Marshall at this time in regard to action taken by the Export-Import Bank to reject General Marshall's recommendation, approved by the Department of State, for the extension of loans for the Canton-Hankow Railway and for the Yellow River bridge in north Honan. General Marshall explained that the Bank had given as the reason for this action that there was not sufficient prospect of amortization to justify the loans. When the Government official said that he did not understand why the loans had been rejected since they had nothing to do with the Government military campaign, General Marshall pointed out that it was the open corruption of the Government as well as its military policy which entered into consideration.



## GENERAL MARSHALL'S VIEWS ON THE SITUATION IN CHINA

On December 1 General Marshall held a long conference with the Generalissimo, which revealed the wide divergence of their views on what course should be followed to reach a peaceful settlement in China. General Marshall pointed out that in his opinion the complete distrust of the National Government in the good intentions of the Communist Party during the past spring had been replaced by an overwhelming distrust on the part of the Communists of the good intent of any proposal advanced by the Government toward a peaceful settlement of the differences. In the recent negotiations, General Marshall and Ambassador Stuart had found it impossible to convince the Communists of the good intentions of the Government or even of the integrity of action of the American mediators. It was General Marshall's view that even the most tolerant approaches of the National Government, notably that represented by the Generalissimo's eight-point proposal of October 16, had been neutralized by military action—in this particular case an attack on Antung and Chefoo at the time of the announcement of this proposal. In regard to the economic situation General Marshall pointed out that military expenditures were reported to be consuming about 70 percent of the National Government's budget, thus creating a vacuum in Government assets in order to support extensive military efforts at the same time that he was being pressed to recommend various loans by the United States Government. He informed the Generalissimo that in the event of a financial collapse the Kuomintang would be imperiled and a fertile field would be created for the spread of communism. General Marshall observed that the National Government's military commanders in the field were wholly unaccustomed to any consideration of financial restrictions. He said that the Communists were aware of the approaching crisis and that this entered into their calculations in forming plans. Directly opposed to this economic problem was the view of the National Government military leaders that the issues could be settled by force. General Marshall said that he not only disagreed with this view from a military standpoint but also felt that before sufficient time could elapse to prove the accuracy of such a view there would be a complete economic collapse. He pointed out that the inability of the National Government to keep open the railway between Tientsin and Chinhuangtao since the withdrawal of the United States Marines in September was one example; another was the fact that sections of Hopei Province, presumably reoccupied by the National Government forces, were still dotted throughout with Communist headquarters. General Marshall summed up the situation with the statement that the Communists were too large a military and

civil force to be ignored and that, even if one disregarded the brutality of the inevitable procedure necessary to destroy them, they probably could not be eliminated by military campaigning. He believed, therefore, that it was imperative that efforts be made to bring them into the Government and that the greatest care should be taken to avoid having military action disrupt the procedure of negotiations.

The Generalissimo said that he was firmly convinced that the Communists never intended to cooperate with the National Government and that, acting under Russian influence, their purpose was to disrupt the National Government. He felt that it was necessary to destroy the Communist military forces and believed that if this were done there would be no difficulty in handling the Communist question. He went on to say that the situation was different from that existing during early campaigns against the Communist forces in that roads were available this time to permit freedom of military movement; he felt confident, therefore, that the Communist forces could be exterminated in from 8 to 10 months. The Generalissimo, referring to the economic situation, said that, while it was more serious in the cities, the Chinese economy was based largely on the agrarian population and there was no danger for a long time of an economic collapse.<sup>53</sup>

At this point General Marshall briefly, but firmly, restated his view that this large Communist group could not be ignored and that the National Government was not capable of destroying it before the country would be faced with a complete economic collapse. General Marshall did not discuss what was to him of vital concern: the possibility of a collapse of the Kuomintang and the evident growing disapproval of the character of the local government, or misgovernment, that the Kuomintang was giving the country.

Under date of December 4 the Communist representative at Nanking forwarded to General Marshall a message from General Chou En-lai at Yen-an setting forth, for transmission to the Generalissimo, the Communists' terms for reopening negotiations:<sup>54</sup> (1) the dissolution of the National Assembly and (2) the restoration of troop positions held as of January 13 in accordance with the cessation of hostilities agreement. General Marshall forwarded a copy of this message without comment to the National Government. General Chou En-lai's message made no reply to General Marshall's request for an indication by the Communist Party of its attitude toward his mediation efforts and posed conditions which the National Government obviously could not be expected to accept. It appeared that the Communist Party had, in effect, rejected American mediation.

<sup>53</sup> See below, pp. 220-229.

<sup>54</sup> See annex 112.



The Generalissimo had in early December indicated the Chinese Government's desire to obtain General Marshall's services as an adviser. General Marshall had declined the offer since he believed it unreasonable to expect that his services as adviser to the National Government could materially promote a beneficial reaction within the Government when as a mediator with full backing from the United States Government he had been unable to influence the Chinese Government. General Marshall was struggling with two problems—the power of the reactionaries in the Government and the difficulty of dealing with the Communist Party with its immense distrust of the Kuomintang. The best defense against communism in his opinion was for the existing Government in China to carry out reforms which would gain for it the support of the people. He was concerned over the destructive influence of the reactionaries in the Government and felt that the Generalissimo's own feelings were so deep and his associations of such long standing that it was most difficult to separate him from the reactionary group. He considered that the solution called for the building up of the liberals under the Generalissimo while at the same time removing the influence of the reactionaries. In considering the Generalissimo's desire for American advice, General Marshall felt that American advice could be helpful in many matters but that corruption within the Government could not be eliminated through advice but rather through the existence of an effective opposition party.

He therefore endeavored, in conversations with National Government leaders, to emphasize the importance and necessity of the adoption by the National Assembly of a constitution in keeping with the PCC resolutions, which would be at least an initial step in the direction of representative government in China. It was the opinion of General Marshall that if this kind of constitution were adopted and the State Council reorganized with seats left vacant for the Communists and the Democratic League, and if the reorganization of the Executive Yuan were then begun, it might be possible to discuss with the Communists ways of their coming into the National Assembly.

In furtherance of the idea of endeavoring to build up a liberal group in China to a position of influence, General Marshall took every opportunity in conversations with minority and non-party Chinese to emphasize the necessity of the unification of the minority parties and the organization of a liberal group which could serve as a balance between the two major parties. He pointed out that the liberal Chinese should band together in a single liberal patriotic organization devoted to the welfare of the people and not to the selfish interests of minority party group leaders. They would then be able to exert influence in the

political situation, an influence which would increase as the group gained prestige. Such a group could stand between the Kuomintang and the Communist Party and neither of them could normally take a decisive step without the support of the liberal party. The minority parties, however, had allowed themselves to be divided and were consequently unable to influence the situation or prevent the use of military force by the Government or the promotion of economic collapse by the Communists. In the midst of this deplorable situation stood the Chinese people alone bearing the full weight of the tragedy.

In conversations with the Generalissimo at this juncture General Marshall noted definite inconsistencies. The Generalissimo said that he would do everything he could to bring the Communists into the Government by peaceful negotiation, but when discussing the question of reopening the two main railways in North China he said that it was useless to attempt to negotiate with the Communists on this question, which would have to be solved by force. He also said that if the railways were taken by force, the Communists would then be compelled to come to terms. He had taken a similar attitude in June, when he had said that "given time, the ripe apple will fall into our laps," and again in August, when he had said that "if hostilities are stopped, there would be no way to force the Communists to attend the National Assembly."

#### THE WORK OF THE NATIONAL ASSEMBLY

Following the departure of General Chou En-lai for Yen-an and the termination of the negotiations, attention was centered chiefly on the National Assembly and the question of the type of constitution it might adopt. There were early indications that the Kuomintang reactionaries were opposed to the adoption of a constitution along the lines of the PCC resolutions and that they were endeavoring to obtain approval of the May 5, 1936 constitution in substantially unchanged form. These circumstances required that the Generalissimo take a strong stand if the constitution to be adopted were to be in general accord with the PCC resolutions.

The Generalissimo did exercise a determined personal leadership, assisted by almost all other groups and individuals in the Assembly, in opposing the extreme right-wing clique. The Assembly adjourned on December 25 with the Generalissimo in full and confident control of the situation, having demonstrated his ability to override the Kuomintang reactionaries and having restored his prestige through his action in securing the adoption of a constitution of a democratic character in reasonable accord with the PCC resolutions.



While the new constitution was on its face a democratic document, General Marshall was concerned with the degree and manner of its enforcement. The passage of the constitution was only the beginning and the only guarantee of an honest reorganization of the Government and a genuine enforcement of the constitution lay in the development of a truly liberal group in China. General Marshall feared that if the minority and non-party liberal groups continued to operate individually, the reorganization of the Government might be a synthetic one. He continued, therefore, to emphasize the importance of the organization of the Chinese liberals into an effective force, which would have as its objective the support of whatever appeared to be a good government.

### THE COMMUNIST PARTY'S REACTION

The Chinese Communist Party was apparently adamant in refusing to recognize the National Assembly and the new constitution and on demanding the acceptance of its two conditions as prerequisites to further negotiation. Communist propaganda attacks on the United States grew stronger during this period and Communist spokesmen indicated the probable Communist strategy—the use of constant harassing tactics on Kuomintang weak points to prevent the reopening of lines of communication and the refusal of further negotiation until the Government had become weakened by economic deterioration. The Communists still had made no reply to General Marshall's inquiry regarding his mediation role.

Although there appeared to be slight prospect for the renewal of negotiations, General Marshall and Ambassador Stuart, pursuant to the Generalissimo's request, suggested that definite proposals be presented to the Communist Party without any attendant publicity. They indicated that, with the adoption of a sound constitution, if the Government proceeded with the establishment of the State Council and began a genuine reorganization of the Executive Yuan, the Generalissimo might send a few representatives of importance and liberal standing to Yen-an to discuss with the Communists the question of reopening negotiations for the cessation of hostilities and Communist participation in the reorganization of the Government. However, before the good faith of the Government had been at least partially established by the adoption of a constitution in accord with the PCC resolutions, news of the Government purpose had become known. The Communist reaction was unfavorable and there were indications that they would resent reorganization of the State Council and the Executive Yuan prior to consultation with them, apparently feeling that this

would close the door on any possibility of responsible participation on their part.

On December 27 General Marshall, in reply to the Generalissimo's request for his comments on the situation, made the following remarks: It was unlikely that the Communists would commit themselves to an agreement at this time due to their overwhelming suspicion that it was the Government's intention to destroy them by military force. The Government's military commanders had erred considerably in their optimistic estimate of what they could achieve toward suppression of the Communists. They had stated in June that Kiangsu Province would be cleared of Communist forces within two months and the Province had not yet been cleared. At the same time they had said that the Communists could be brought to terms from a military standpoint within three months. That had not occurred after six months. The Government refusal to terminate hostilities in order to force the Communists to participate in the National Assembly had failed of its purpose. If the Communists would not renew negotiations, the Government should go ahead with the reorganization, leaving the door open for Communist and Democratic League participation. The Generalissimo, by his leadership in the National Assembly in opposing the reactionaries and securing the adoption of a reasonably sound constitution, had gained a great moral victory which had rehabilitated, if not added to his prestige. It was most important, therefore, that he demonstrate at this time that the new constitution was not a mere collection of words and that he was determined to institute a democratic form of government. He must by his own indirect leadership father a coalition of the minority groups into a liberal party, since, unless such sizable minority groups existed, his efforts in the National Assembly to secure a sound constitution would be regarded as mere camouflage for an intention to proceed with one-party government. The various minority groups could not of themselves manage an amalgamation and such action would require his active assistance. He should also call on the minority party leaders to nominate men for various posts rather than follow previous practices of neutralizing the opposition leaders by bribing them with attractive appointments. If he did not take such action, there could be no genuine two-party government and his integrity and position would be open to serious attack. The organization of the minority parties into a large liberal group would assist him greatly and he could place himself in the position of the father of his country rather than continue merely as the leader of the Kuomintang one-party government.



## VIII. THE END OF THE MARSHALL MISSION

### GENERAL MARSHALL'S REFUSAL TO CONTINUE AS MEDIATOR

General Marshall remained in China during this period in the hope that he might be able to use his influence toward the adoption of a genuinely democratic constitution. In the past he had often felt that the National Government had desired American mediation as a shield for its military campaigns and at this time the Communists had no desire for further American mediation but feared being placed in an unfavorable position if they were to reject formally such mediation. He was not willing to allow himself thus to be used by either party, nor did he intend to serve as an umpire on the battlefield. He felt that his continued usefulness as a negotiator had practically been wrecked by the recent Communist rejection of all Government overtures, actions which played directly into the hands of the reactionaries in the Government, from whom his chief opposition had always come.

General Marshall was of the opinion that, if the Communists declined to reopen negotiations and repulsed the Government's overtures, the Executive Headquarters should be dismantled. He also believed that he should be recalled to give a first-hand report to the President on the situation. It was his hope that by issuing a very frank statement at the time of his recall he might be able to weaken the power of the reactionaries and strengthen the position and influence of the better elements, and he believed that the time had come when it was going to be necessary for the Chinese themselves to do the things he had endeavored to persuade them to do. He hoped, therefore, that by a frank statement of Chinese Communist misrepresentations and vicious propaganda against the United States he might be able to give some guidance to misinformed people both in China and in the United States.

### GENERAL MARSHALL'S RECALL AND FINAL STATEMENT

On January 6, 1947, the President announced that he had directed General Marshall to return to Washington to report in person on the situation in China. General Marshall left China en route to the United States on January 8, and shortly after his departure the Department of State made public the personal full and frank statement referred to above. The greatest obstacle to peace in China, the General stated, was the almost overwhelming suspicion with which the Kuomintang and the Chinese Communists regarded each other. Other important factors which he blamed for the breakdown of negotiations included

the opposition of the dominant group of Kuomintang reactionaries, the efforts of the extreme Communists to produce an economic situation which would facilitate the overthrow or collapse of the Government, and the dominating influence of the military in China. "The salvation of the situation," he reported, "would be the assumption of leadership by the liberals in the Government and in the minority parties and successful action on their part under the leadership of the Generalissimo would lead to unity through good government."<sup>55</sup>

In conclusion, General Marshall said that he had spoken very frankly because in no other way could he hope to bring to the American people even a partial understanding of the complex problem and that he was expressing his views publicly, as was his duty, to present his estimate of the situation and its possibilities to the American people.

Prior to his departure from China, General Marshall had conversations with several high-ranking Government officials. He stressed the necessity of removing the dominant military clique and the reactionaries from the Government structure. He explained that the frank statement he expected to make would arouse bitterness, particularly among the radicals, the reactionaries and the irreconcilables. He said that he had exerted every effort to create an opportunity for the better elements in China to rise to the top, and he hoped that his statement would assist in making possible the organization of a patriotic liberal group under the indirect sponsorship of the Generalissimo. He continued that he considered such action imperative from the standpoint of the Generalissimo since he needed a respectable opposition party in order to prove to the world his sincerity in establishing a democratic form of government in China. General Marshall pointed out that such an opposition party would be a strong force for good, which the Generalissimo could use to wipe out graft, corruption and incompetence in the Government and in the Kuomintang and which would provide an effective check on the existing dictatorial control of the military leaders.

#### PRESIDENT TRUMAN'S STATEMENT OF DECEMBER 18, 1946

Shortly before General Marshall's recall to Washington, President Truman on December 18, 1946, after full consultation with his Special Representative in China, issued a further statement on China. He reaffirmed American policy as laid down in his statement of December 15, 1945, and reviewed events in China in relation to that policy during the intervening year. He restated the American belief that a "united and democratic China" was of the utmost importance to world peace and that a broadening of the base of the Chinese Government

<sup>55</sup> See annex 113 for full text.



to make it representative of the Chinese people would further China's progress toward that goal. He expressed deep regret that China had not yet been able to achieve unity by peaceful methods but hoped that the Chinese Government would yet find a solution. He characterized as still sound the plans for political unification and military reorganization agreed upon early in 1946 but never fully implemented. Stating that the United States would give careful and sympathetic consideration to ways and means which were presented for constructive aid to China, the President laid down a continued policy of avoiding involvement in Chinese civil strife and of persevering in a policy of "helping the Chinese people to bring about peace and economic recovery in their country."<sup>56</sup>

The Kuomintang press generally interpreted this statement as an endorsement of the National Government's policy and position while the Communist Party radio attacked it as "mainly an apology for the United States Government's reactionary policy toward China since March of this year."

#### AMERICAN WITHDRAWAL FROM THE COMMITTEE OF THREE AND EXECUTIVE HEADQUARTERS

On January 7, 1947, President Truman announced the nomination of General Marshall as Secretary of State. Shortly after General Marshall's assumption of office the decision was reached to terminate the connection of the United States with the Committee of Three and to withdraw American personnel from Executive Headquarters.<sup>57</sup> This action made it possible to withdraw all United States Marines from North China, except for a guard contingent at Tsingtao, the location of the United States Naval Training Group engaged in training Chinese naval personnel. In issuing an announcement regarding the termination of the Executive Headquarters, the National Government expressed its appreciation of the American efforts to achieve peace and unity in China.

#### CONCLUSION

The termination of the American mediation effort did not change the traditional attitude of the United States toward China. That effort had failed to bring peace and unity to China. There was a point beyond which American mediation could not go. Peace and stability in China must, in the final analysis, be achieved by the efforts of the Chinese themselves. The United States had endeavored to assist in attaining those goals and in the process had been sub-

<sup>56</sup> See annex 114.

<sup>57</sup> See annex 115.

jected to bitter attack by many groups, both in China and abroad—attacks which had, deliberately or otherwise, misrepresented the intentions and purposes of the United States Government. The issue at this point was squarely up to the Chinese themselves. It was General Marshall's opinion that only through the existence of a liberal opposition group in China could there be a guarantee of good government and of progress toward stability. The future efforts of the Chinese themselves would determine whether it was possible to give peace and stability to the people of China. It was General Marshall's belief that the United States should continue to view sympathetically the problem facing the Chinese and should take any action, without intervening in China's internal affairs, that would assist China in realizing those aims which represented the hopes and aspirations of the Chinese people as well as those of the United States.

## IX. ECONOMIC DEVELOPMENTS DURING THE MARSHALL MISSION

### EFFECTS OF INTERNAL CONFLICT

The economic situation in 1946, while not decisive, did influence developments; more importantly, it carried serious implications for the future and in no small measure indicated National Government capabilities. The discouraging lack of progress toward a political and military settlement in 1946 was matched by a steady deterioration of the National Government's economic position. In contrast to the relatively bright situation prevailing on V-J Day, China, 16 months later, was gripped by a mounting inflation, its reserves of foreign exchange had been partially depleted, and no real beginning had been made on the task of internal rehabilitation and economic development. Rather, the outbreak of widespread fighting between Nationalist and Communist forces had resulted in general damage to mining and transportation facilities and in the progressive isolation of mineral and agricultural production from centers of consumption and export. The nature of the struggle in China made it possible for the Chinese Communists to better their relative position by tactics aimed at destruction and economic stagnation, while the National Government was faced with the task of attempting to maintain a military front and economy extending over vast areas and linked by exposed and lengthy lines of communication. These considerations had been in the mind of General Marshall when he warned the National Government against the consequences of a full-scale civil war.

One of the important blows to the National Government's economic prospects, however, was not traceable to Chinese actions or, initially,



to the outbreak of civil strife. After the Japanese surrender, Russian occupation forces systematically stripped equipment and parts from key plants in the Manchurian industrial complex. As a result, China did not acquire a functioning industrial system in Manchuria, but rather, a damaged heavy industry, poorly integrated and partially inoperable. When Manchuria became the first major area of civil fighting, transport disruption became a chronic problem. The few railroad lines operating in Nationalist-held areas of Manchuria were severely handicapped by shortages of rolling stock and by damaging Communist raids. Cities were separated from the areas from which they normally obtained their food supplies and fuel. Manchuria increasingly became a major economic liability to the National Government.

In China proper, the paramount post-war economic problem was the continuing inflation. During the war with Japan the Government had financed a large part of its expenditures by the issuance of paper currency. The result had been a steady inflation of prices which in turn had as one of its consequences the destruction of the savings and the economic position of middle class Chinese. The inflationary process, far from being arrested in 1946, was accelerated. Wholesale prices in Shanghai increased more than seven times during the year. The official exchange rate between the Chinese National currency dollar and the United States dollar was raised in August from 2,020 to 1 to 3,350 to 1. By December the open market dollar rate had risen to 6,500 to 1.

Financial policies followed by the National Government were an important factor in the inflation. Of total Government expenditures in the postwar period, less than 25 percent were financed through taxation and other recurring sources of revenue. Another 10 percent were met by the partial liquidation of official gold and United States dollar reserves and former enemy properties. The deficit of approximately 65 percent of the total budget was covered by currency expansion. The course of the inflation was fostered furthermore by a gradually declining public confidence in both the Government and its monetary unit. The resulting general reluctance to hold Chinese currency impeded the production and movement of goods and induced speculation and hoarding of commodities on a grand scale, all of which served to intensify greatly the scarcity of commodities brought about directly by military operations.

It would have been unreasonable to expect the National Government to make the transition from war to peace, involving as it did the reoccupation of areas long under enemy control, without a measure of inflation. With the outbreak of civil strife and the re-

sulting high level of military outlays, continuing inflation could scarcely have been avoided. The budgetary and fiscal operations of the National Government, however, were of such a nature as to accentuate inflationary developments. Government expenditures were largely uncontrolled. Funds were dissipated by inefficient military commanders and in the maintenance of excessively large and wholly unproductive garrison forces. Much of the tax revenue nominally accruing to the Government failed to reach the Government's treasury because of malpractices prevalent throughout the administrative hierarchy.

#### DEVELOPMENTS IN CHINA'S FOREIGN EXCHANGE AND TRADE POLICIES

Associated with the domestic inflation was a steady depletion of the Government's foreign exchange reserves. Domestic inflation had the effect of inhibiting exports and of enhancing the demand for imports which could serve as a hedge against rising prices. In the months immediately following the Japanese surrender, the Government permitted the abnormal demand for imported commodities to operate without restriction. In March 1946, action was taken to prohibit the importation of certain luxury items and to place a larger list of non-essential imports under licensing. In November, control of imports was tightened by an expansion of the prohibited list, by the imposition of quotas upon important import items and by the extension of licensing to all other permitted imports.

At the same time, however, the maintenance of unrealistic foreign exchange rates had the effect of subsidizing imports and penalizing exports. Moreover, the proliferation of local taxes and other artificial barriers to domestic trade tended to reduce drastically the flow of goods into China's great coastal cities. Thus, the dependence of Chinese urban areas on foreign imports was greatly increased while foreign exchange receipts were simultaneously diminished. Other factors contributing to the unfavorable balance-of-payments position and a flight of capital abroad included the widespread smuggling of exports, the undervaluation of declared exports and the transmittal of inward remittances through illegal channels.

The cumulative result of the various influences bearing upon China's import-export position and of the National Government's policy of open-market sales of gold as a counterinflationary device was a decline in official reserves of United States dollar exchange and gold from the V-J Day level of 900 million dollars to an estimated figure of approximately 450 million dollars at the end of 1946. This use of official assets



unfortunately did not involve an over-all expansion through purchases abroad of productive plant and equipment in China or an adequate inflow of repair and replacement parts for existing plant.

#### EFFECTS OF RESTRICTIONS ON TRADE AND SHIPPING

Chinese regulations governing foreign trade and foreign exchange transactions hampered China's foreign trade because of the character of the regulations and their administration as well as because of the direct restrictions they imposed. These regulations were highly complex, they varied considerably in their application as between different Chinese ports and they were often made effective immediately upon their announcement with consequent hardship to importers. It was recognized that the Chinese were confronted with a situation which required the husbanding of foreign exchange resources. There was, however, a general belief among foreign traders that the Chinese administrative mechanism charged with enforcing trade and exchange regulations was unnecessarily cumbersome and arbitrary. Charges were frequently leveled against the Chinese Government for alleged corruption and favoritism, open or indirect, to privileged Chinese firms. Some of the complaints of private foreign firms may have been occasioned by curtailment of trade due to the stringent foreign exchange situation which affected all business in greater or less degree, or by the natural tendency, following the relinquishment by foreign Powers of extraterritoriality, for Chinese firms to be given a larger share of China's foreign trade. While due allowance must be made for these qualifying circumstances, many of the charges of favoritism and inefficiency appeared to be well grounded.

In the field of shipping, the Chinese Government took the highly nationalistic position that, contrary to general international practice, no foreign flag vessels could carry cargoes from abroad to Chinese ports not designated as ocean ports. This position excluded foreign flag vessels from the Yangtze River beyond Shanghai and required transshipment in the Shanghai area of all cargoes being carried between ports up the Yangtze, such as the major commercial center of Hankow, and foreign countries. In consequence, the transportation of such cargoes in Chinese waters was much more costly than it should have been, and the process of transshipment in the Shanghai area frequently made that port a bottleneck for commodities urgently needed in the interior of China.

#### ECONOMIC TREATY RELATIONS

Despite the increasingly severe controls imposed by the Chinese Government on foreign trade, and the malpractices associated with

enforcement of such controls, China contributed during this period to creating a framework in which effective international economic relations might eventually be conducted. China's negotiation of a commercial treaty and an aviation agreement with the United States, and its adherence to the General Agreement on Tariffs and Trade, were important steps in this regard. A modern comprehensive treaty of friendship, commerce and navigation was negotiated in 1946 to replace the old treaty of 1903 and other treaties which had been based on the previously existing extraterritorial arrangements between the United States and China. Ratifications were exchanged and the treaty became effective on November 30, 1948. The treaty was based on the principles of mutuality and nondiscrimination; in general it provided that each Government shall assure to nationals of the other, with some exceptions and subject to its general laws, the same treatment and rights enjoyed by its own nationals and provided also that the nationals of either in the territories of the other shall be entitled to any rights or privileges which may be granted to the nationals of a third country. The trade and commerce of the two countries with each other were also guaranteed similar rights to most-favored-nation treatment. Thus the treaty was in reciprocal terms and provided for no rights or privileges for nationals of the United States in China which it did not equally confer on Chinese nationals in the United States.

Also in 1946 preliminary steps were taken for the negotiation of a reciprocal trade agreement with China. This agreement was eventually consummated in 1947 when the United States negotiated with China and 21 other countries a multilateral reciprocal trade agreement (the General Agreement on Tariffs and Trade) which reaffirmed the principle of most-favored-nation treatment, incorporated various general provisions governing trade relationships and provided for tariff concessions resulting in mutual reductions or bindings of duties on certain tariff classifications of the respective countries. This agreement became effective with respect to China on May 22, 1948.

A bilateral air transport agreement between the United States and China was signed in Nanking on December 20, 1946. This agreement is based on standard clauses drawn up at the Chicago International Civil Aviation Conference of 1944 and incorporates the so-called Bermuda principles contained in the bilateral air transport agreement between the United States and the United Kingdom. It is to be noted that conclusion of the latter agreement in February 1946 marked the establishment of a pattern of air transport agreements which, with slight deviations, the United States has negotiated ever since. The pattern of these air agreements involves in general the following factors: routes, privileges (accorded to an air carrier



of one nation in the air space of a second), rates, frequency of operation, and capacity of aircraft. With the exception of prescribed routes over which aircraft of each contracting party operate, the remainder of the agreement is relatively standard and grants full reciprocity to each signatory country. The bilateral air transport agreements negotiated by the United States are purely commercial aviation agreements for the reciprocal exchange of commercial air rights. The United States-China air agreement makes no provision for base rights for either Government in the territory of the other. Under this agreement the airlines of each country are accorded the right to operate services to the other over three different routes. Since the conclusion of the agreement the United States has utilized two of the routes granted to it in services to Shanghai, while China has exercised its route privileges for the operation of a mid-Pacific route to San Francisco.

#### FOREIGN AID IN 1946

During 1945 and 1946 a series of measures were taken by foreign governments which provided China with very substantial external economic aid.<sup>58</sup> The commodities and services made available by these various measures contributed to meeting China's abnormal need following the Japanese surrender for food, clothing, medical supplies and raw materials and provided the capital equipment necessary to begin the rehabilitation and reconstruction of Chinese agriculture and of certain key industrial and transportation facilities.

The China program of the United Nations Relief and Rehabilitation Administration represented the largest single measure of foreign aid to China during this period and was the largest program that UNRRA carried out for any one country. UNRRA began its shipments to China in November 1945 and by the end of that year had shipped approximately 300,000 tons of supplies. The UNRRA program for China continued throughout 1946 and 1947, and a few deliveries took place thereafter. The value of goods delivered to China under the UNRRA program, including shipping and insurance costs, is estimated at 658.4 million dollars. The United States contribution to the world-wide UNRRA fund was approximately 72 percent. It may therefore be said that the United States contribution to the UNRRA China program amounted to 72 percent of 658.4 million dollars, or 474 million dollars. UNRRA's China program consisted chiefly of food and clothing and of a wide variety of capital goods and materials important to the rehabilitation of China's agriculture and industries. In addition, UNRRA provided large numbers of technical and super-

<sup>58</sup> See annex 181.

visory personnel who assisted the Chinese in the distribution of consumption commodities and the installation of capital goods.

During the latter part of 1945, the Chinese Government approached the Export-Import Bank with applications for the extension of credits to cover a variety of rehabilitation needs. No action was taken on these requests, however, and in January 1946 the National Advisory Council, acting in accordance with General Marshall's recommendations, decided that a major program of financial assistance to China must await satisfactory political and economic developments in that country. General Marshall was therefore able to use the possibility of American economic aid as a bargaining point in trying to achieve his political objectives. By early 1946, the progress of the negotiations between the National Government and the Chinese Communists made it appear that a peaceful settlement might be reached which would provide a basis for gradual stabilization and rehabilitation of the Chinese economy. Consequently, the Export-Import Bank gave favorable consideration, upon the recommendation of General Marshall and the Department of State, to a number of Chinese applications and during the first quarter of 1946 authorized a total of 66.8 million dollars in credits to the Chinese Government. These credits were primarily for cargo vessels, railway repair materials, electric-power generating equipment and raw cotton, and they were all on a long-term basis except for the cotton credit, which was to be repaid in 24 months. A credit of 16 million dollars previously authorized for the Yungli Chemical Industries was not finalized by guaranty of the Chinese Government until 1947. This brought the total of Export-Import Bank credits actually made available to China after V-J Day to 82.8 million dollars.

In recognition of the magnitude of Chinese requirements for reconstruction and the possibilities for economic development under orderly conditions, the United States Government gave consideration during the same period to setting aside substantial funds to assist China in this task. In April 1946, following the recommendation of General Marshall and approval by the National Advisory Council, the Export-Import Bank authorized the earmarking until June 30, 1947, of 500 million dollars of the Bank's funds for the possible extension of individual credits to the Chinese Government and private Chinese interests. It was contemplated that such credits would be confined to particular projects and would be subject to the usual criteria governing the Bank's lending operations. No implementing agreements were consummated, however, between the Bank and the representatives of the Chinese Government.



During the latter months of 1946, General Marshall and the Department of State recommended favorable consideration of certain Chinese projects by the Export-Import Bank. The Bank refused at this time to take favorable action on Chinese credit proposals chiefly because of the outbreak in mid-1946 of widespread fighting between the Chinese Communists and National Government forces and the clear implications that this development carried for Chinese economic prospects. In this situation, the Bank was unable to find reasonable assurances of repayment regarding which it had a statutory obligation.

In February 1946 the Canadian Government extended a long-term credit of 60 million dollars to the Chinese Government. Of the total credit, 25 million dollars was to be used to purchase (a) supplies and equipment originally requested by China from Canada as mutual aid but undelivered as of V-J Day, (b) other commodities in production in Canada on September 1, 1945, which were surplus to Canadian requirements, and (c) certain used industrial equipment, together with (d) the cost of reconverting and processing such equipment. The remaining 35 million dollars of the credit was to be used for equipment, supplies and services required by the Chinese Government for reconstruction and other post-war purposes.

The United States extended a credit to the Chinese Government, somewhat similar to the Canadian credit referred to above, in an agreement of June 14, 1946, commonly referred to as the Lend-Lease "Pipeline" Credit Agreement. This agreement provided for the delivery on a long-term credit basis, pursuant to section 3 (c) of the Lend-Lease Act, of civilian-type equipment and supplies contracted for but undelivered on V-J Day under the wartime lend-lease program for China. It was subsequently determined that a total of 51.7 million dollars in equipment and supplies could be furnished under contracts covered by this agreement.

The sale to China of United States civilian-type war surplus property with an estimated procurement value of 900 million dollars was authorized or recognized under an agreement of August 30, 1946, between the two Governments.<sup>50</sup> The property was located in India and China and on 17 Pacific islands and consisted in large measure of small ships and marine equipment, fixed installations, vehicles of all types, construction equipment and air-force supplies and equipment. The remainder of the property comprised a wide variety of communications equipment, tools, shop equipment, industrial machinery, electrical equipment, medical equipment and supplies and chemicals. The agreed realization to the United States for this property was 175 million

<sup>50</sup> For the Chinese Communist reaction to this agreement see p. 180.

dollars. Of this amount 55 million dollars was to be repaid in Chinese currency on a long-term credit basis, 20 million dollars of which the United States Government was in turn to use for cultural and educational activities in China. The balance of this credit, 35 million dollars, was to be made available in Chinese currency for acquisition by the United States Government of real property in China for diplomatic and consular use and for other American governmental expenses in China. To this credit was added an agreed offset of 150 million dollars against the United States wartime indebtedness to China arising out of expenditures by the Chinese Government for the United States Army. While these considerations totaled 205 million dollars, the United States as a part of the agreement established a fund of 30 million dollars to be used by China for shipping and technical services arising out of the property transfer. This 30-million-dollar fund reduced the total United States realization to the net figure of 175 million dollars

In October 1945 the Government of China had presented to the United States a proposal for technical collaboration in agriculture and forestry. In the course of the ensuing discussions it was agreed to establish a joint China-United States Agricultural Mission to make an intensive study of the problems of agricultural improvement in China, with special attention to be given those agricultural commodities which play an important role in Sino-American trade. The President of China stressed the importance of the mission's assignment and technical collaboration in general in a letter to the President of the United States which read in part as follows:

"We have been for centuries primarily an agricultural nation. The farmer is traditionally regarded with affection and respect. During recent times, unfortunately, our agricultural technique has fallen behind due to delay in the adoption and application of new scientific methods. I am keenly conscious of the fact that unless and until Chinese agriculture is modernized, Chinese industry cannot develop; as long as industry remains undeveloped, the general economy of the country cannot greatly improve. For this reason, I heartily agree with you that any plan for cooperation in economic development between our two countries should include agriculture."

The United States Government dispatched 10 agricultural experts to China for the mission, the Government of China appointed 13 and work was commenced on June 27, 1946. Conferences were held with Government officials, businessmen and agricultural specialists at Shanghai and Nanking, and field trips were made through 14 provinces and the island of Taiwan. One group concentrated on the broad aspects of the mission's assignment—education, research, and rural



economic and social problems—while other smaller sections studied the production and marketing of specific commodities including tung oil, silk, tea, carpet wool and fish.

The mission submitted its report jointly to the two Governments late in 1946, and its recommendations were received by the United States Government as the conclusions of independent technical experts.

The report outlined in some detail a comprehensive and long-range program that the Chinese Government might undertake for the improvement of China's agriculture. The mission's recommendations included the following points: (1) greater emphasis on fertilizer production, development of irrigation, improvement of plants and animals, development of forestry, and production of fruits, vegetables and livestock to improve diets; (2) adjustment of the exchange rate, reduction in costs of transportation and credit, and improvement of standardization and quality to encourage the production and export of important agricultural commodities; (3) provision of adequate farm credit, improvement of tenancy conditions, advancement of land surveys, registration, and appraisal, and enforcement of the Land Law of 1946 with respect to taxation of land; (4) furthering of programs relating to general education, public health, transportation, river conservancy, and flood control; (5) emphasis on agricultural instruction, research and extension work within an integrated system; (6) creation of a single Government bank to serve agricultural needs; (7) consideration of measures to guard against a rapid increase in the growth of population.

In his statement of December 18, 1946, President Truman had renewed the offer of American assistance in implementing the recommendations of the mission in so far as feasible.

Despite the continuing efforts of the American Government to elicit Chinese action few constructive measures were taken by the Chinese Government in the field of agricultural improvement. Several of the recommendations of the Joint Mission, however, were later embodied in the program of the Joint Commission for Rural Reconstruction in China, established under the terms of the China Aid Act of 1948.<sup>60</sup>

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<sup>60</sup> See chapter VIII.

## CHAPTER VI

# The Ambassadorship of John Leighton Stuart, 1947-1949

## I. THE POLITICAL AND MILITARY SITUATION

### FURTHER EFFORTS AT NEGOTIATION

The American mediation effort described in chapters III and V had ended, but the Chinese Government did not at once cease its attempts to find some method for the resumption of political negotiations. On January 15, 1947, the Generalissimo informed Ambassador Stuart that he had been meeting for several days with prominent Government leaders in an attempt to determine some means of reopening negotiations. These consultations resulted in four agreements within the Chinese Government which were given to the Ambassador. The points listed were as follows:

- (1) The National Government desired to send a delegation to Yen-an or would invite the Communist Party to send one to Nanking to continue discussions, or it would agree to a round-table conference at any mutually acceptable place.

- (2) The Government and the Communists should at once issue a cease-fire order and confer on its implementation.

- (3) The Government desired to resume discussions of practicable plans for the reorganization of the army and the restoration of communications based on the principles of the Committee of Three.

- (4) The Government expressed a desire to reach an immediate agreement with the Communists on the political control of disputed areas.

The Generalissimo asked the Ambassador to get in touch with the principal Communist delegate still in Nanking, Mr. Wang Ping-nan, to ascertain if the Communists would invite a Government peace delegation to Yen-an. Dr. Stuart was specifically requested not to disclose the foregoing four points, but if asked he could say that tentatively General Chang Chih-chung, Governor of Sinkiang, would represent the Government. Dr. Stuart could also state, if asked, that the Government attached no conditions to peace discussions. It



was the avowed hope of the Generalissimo that discussions without conditions might be more fruitful than previous ones and that the original spirit of the Political Consultative Conference agreements could be recaptured.

On January 16 the Ambassador saw Wang Ping-nan, who asked the anticipated questions and received the replies which the Generalissimo had authorized. The Ambassador took particular pains to make it clear that he was acting only as a transmitting medium and not as a direct participant. The Chinese Communist reply was prompt and categorical to the effect that if the Government would agree to the two previously stipulated conditions (that is, the abrogation of the constitution and the restoration of the military positions held January 13, 1946, the effective date of the cease-fire agreement) the negotiations could be resumed in Nanking; if not, nothing could be gained by sending a delegation to Yen-an. The Communist representative insisted, however, that this reply was not intended to break off negotiations but rather to clear the ground for subsequent resumption. The Ambassador on January 23 informed the Department of State that it was his belief that the Chinese Communists meant what they said on this point as they were militarily confident and believed that the Government would be forced within the ensuing few months to reopen discussions on Communist terms.

On January 20 the Ministry of Information, on behalf of the National Government, published a long statement outlining the course of negotiations with the Chinese Communists. It stated, *inter alia*:

"As far back as the beginning of the war of resistance, in order to pool together the nation's efforts, the Government called the People's Political Council consisting of representatives of all political parties and independents.

"From start to finish, the Government has regarded the Communist problem as a political problem. The Kuomintang at its Tenth Central Executive Committee Plenary Session in 1942 and Eleventh Plenary Session the following year persistently advocated an early solution through political means.

"After May 1944 the Government has been negotiating with the Communist Party without let-up in the hope that a peaceful settlement could be reached."

The Ministry of Information concluded its statement with the announcement that the Chinese Government would make another appeal to the Chinese Communists for additional conversations and listed the four-point proposal, which had previously been communicated to the Communist representatives. The Communists replied publicly on

January 29, charging that the four points of the Government were nothing but a fraud which rejected the real prerequisites for peace negotiations. The Communists refused to accept the Nationalist offer until their previous two conditions, namely abrogation of the constitution and a return to the military *status quo* of January 13, 1946, had been accepted. On the following day the Nationalist Ministry of Information repeated its previous offer but added that the two conditions demanded by the Communists would have the effect of destroying the Chinese Republic. The Government therefore felt that it had no alternative but to proceed with its own program for political democratization. It appealed to all groups and factions to join in the work of the reconstruction and rehabilitation of China. The Generalissimo, on February 16, 1947, followed up this plea with one of his own, pledging his Government to a 10-point program of economic rehabilitation and asking for the cooperation of all citizens of China.<sup>1</sup> On February 11, the Government notified the Communist delegation in Nanking that its presence in Government areas was no longer desired.

#### REVERSAL OF COMMUNIST POLICY

Indications of the attitude of the Chinese Communist Party were given in statements which appeared early in 1947. The first was a statement by Chou En-lai<sup>2</sup> which, together with the other documents, represented a major change in the public official Communist line and a distinct reversal of policy as previously set down in 1945 by Mao Tse-tung, as Chairman of the Central Committee, in his report to the Seventh Party Congress entitled *The New Democracy*. The second document was a statement by Lu Ting-yi, head of the Department of Information of the Chinese Communist Party and a member of the Central Committee, in which he aligned the Chinese Communists with Russia on foreign policy and denounced the United States as the heir of German and Japanese Fascists.<sup>3</sup> On February 1, the Central Committee issued a strong denunciation of the National Government, accused the Government of selling out China to foreign interests and announced that the Chinese Communists would refuse to recognize any agreements and understandings reached by the National Government subsequent to January 10, 1946.<sup>4</sup>

<sup>1</sup> For full text of these statements see annex 116 (a)-(d).

<sup>2</sup> See annex 117.

<sup>3</sup> See annex 118.

<sup>4</sup> Full text in annex 119. The length to which this change has gone is indicated in a speech by Mao Tse-tung given on June 30, 1949, which is included as annex 120.



**THE SOVIET PROPOSAL OF MARCH 10, 1947**

On March 10, at a meeting of the Council of Foreign Ministers at Moscow, the Soviet Foreign Minister, Mr. Molotov, proposed that problems relating to the settlement of the civil war in China be included in the agenda of the meeting of the Council. The United States Government did not concur in the Soviet proposal. This view was reinforced by the instantaneous reaction of the Chinese Government. The Chinese Foreign Minister, Dr. Wang Shih-chieh, on March 11 informed General Marshall that China would strenuously object to having its internal affairs placed on the agenda of the Moscow Conference. At the same time the Foreign Minister issued a similar statement to the press. The Chinese Communists took their cue from Moscow and issued a statement favoring inclusion of China on the Moscow Conference agenda, but insisted that the Chinese Communists themselves should be represented at any such discussions. In view of the opposition to the Soviet proposal, it was dropped.

Dr. Wang also informed the American Ambassador that on March 8 the Soviet Ambassador had called with two requests: (1) that China take over the administration of Dairen and Port Arthur and (2) that joint operation be undertaken of the railway line from Dairen through Mukden to Changchun. Subsequently a Chinese Government Mission under strict Russian surveillance did visit Dairen to survey the situation. The negotiations reached an impasse over the questions of armed police and the admission of Chinese troops into the area and were not renewed.

**REORGANIZATION OF THE LEGISLATIVE YUAN AND THE CONTROL YUAN, MARCH 1, 1947**

In the meantime, the functioning of the National Government had been paralyzed to a considerable extent by the slowness with which its projected reorganization was proceeding. The new Constitution of China had been adopted by the National Assembly on December 25, 1946, with the provision that it would go into effect one year from the date of its adoption. During the interim period a transition government would be organized to prepare the country for constitutional government, to eliminate one-party rule by termination of the period of political tutelage, and to prepare other groups for participation in the national political life. The organization of this new government proved to be far more difficult than had been anticipated.

The difficulties principally arose from the inability of the Kuomintang and the third parties to agree in their negotiations upon the division of the principal positions in the Five Yuan and the State Council. It should be noted, parenthetically, that throughout these

negotiations a certain number of positions were reserved for the Communist Party if it should choose to participate. There was at no time, however, any indication that the Communists had any intention of participating and, in fact, all their public announcements were emphatic in stating that it would be impossible for them to participate under what they called "an illegal constitution."

At a fairly early stage in the negotiations it also became apparent that the Democratic League, the third largest party, had so far associated itself with the stand taken by the Communists that it too would not participate. This reduced the negotiations, apart from the internal manipulations within the Kuomintang itself, which became the most important phase, to a division of positions between the Kuomintang on the one hand and the Youth Party and the Social Democrats on the other. These two minor parties commanded so small a following that the efforts to get them in the Government could be considered important only in a symbolic sense of nominally ending one-party rule.

At midnight, March 1, the Government announced the appointment of 50 new members to the Legislative Yuan, of whom 17 were Kuomintang, 13 Youth Party, 12 Social Democrats, and 8 non-partisan. At the same time 25 new members were named to the Control Yuan, of whom 9 were Kuomintang, 6 Youth Party, 7 Social Democrats, and 3 non-partisan. Forty-four new members were added to the People's Political Council, of whom 11 were Kuomintang, 11 Youth Party, 11 Social Democrats, and 11 non-partisan. These new members added to the old membership gave the third parties a minority representation, but nonetheless one much larger proportionately than their actual political following.

The next day Dr. T. V. Soong, following a frank conversation with the Generalissimo, resigned as Prime Minister. Ambassador Stuart interpreted this development and its background to the Department of State in the following terms on March 3:

"T. V. Soong had a long talk with Generalissimo on the afternoon of the evening that he handed in his resignation. At any rate the latter interview was not unamicable and the Generalissimo, although urging him to maintain his position as chairman of the Supreme Economic Council, readily accepted his resignation as President of the Executive Yuan and then without much ado as the chairman of the Supreme Economic Council as well. My surmise from available information is that Generalissimo propounded to T. V. Soong in the first conversation his military plans for intensification of the civil war which *inter alia* will require, in view of recent price increases, a rise in pay and supply allotments for the Army in the near future.



Hemmed in on the one side by relentless demands of civil war and on the other by increasingly painful limitations which his growing unpopularity was imposing on his freedom of action, he decided to save his reputation—if not his face—by chucking in his hand before it was called and he was well smeared.

“My belief is that the Generalissimo has determined to embark on an all-out military campaign to free as much of China proper from Communist control as possible to the end that after about three months, the Communists would be chastened (where they are now blatantly bumptious) and concentrated in a much smaller area. My guess is that feeling as he does about Communists, the Generalissimo, although nervous about the Moscow Conference, does not envisage any improvement promising permanency in Soviet-American relations and therefore is not without hope that the United States will in due course come in some fashion and to some degree to the Government’s assistance. There is no doubt that he is now increasingly concerned about the rate of financial deterioration and the ability of Communists to prolong the struggle and create havoc. However, he has made a point of telling Chinese who call upon him that China must stand on its own feet and face the future without American assistance. I have a sense that the CC Clique<sup>5</sup> work on him in this wise and, concomitantly, to the effect that he will be getting the worst of both worlds if he weakens himself domestically and fails to achieve compensatory aid from the United States. That his mood is exigent and bitter is evident as indicated in today’s speech. As I see it, these next few days are important for the reorganization plans—important in that this fight-it-all-alone mood should not find reflection in the appointments and powers of the State Council and the Executive Yuan.”

#### AMBASSADOR STUART’S SUMMARY OF DEVELOPMENTS

On March 12, Ambassador Stuart summarized the developments of late February and early March, together with his interpretation as given below, this being of particular importance in view of the impending Third Plenary Session of the Central Executive Committee of the Kuomintang which would have an important bearing on future developments:

“Events have moved so rapidly in China during the past 10 days and have included so many complicating factors that it might be useful at this time to present a brief over-all summary drawing together

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<sup>5</sup> The CC Clique is the extreme right-wing faction of the Kuomintang and is completely dominated by two brothers, Chen Li-fu and Chen Kuo-fu, who have long been closely associated with the Generalissimo. The latter has relied on them to discipline the rank and file of the Party.

and correlating previous telegrams. The two main aspects are, of course, the military and the political-economic, with the former giving a kind of desperate urgency to the need for political adjustment because the continuance of civil war is an increasing drain on the national economy, making a mockery of attempts to move in the direction of normal economic development.

"The current military campaigns have surpassed in scope anything seen in many months. The Government obviously wanted, and badly needed, a major military victory in Shantung. This it has failed to obtain. Communists took the initiative in Manchuria, managing to force their way to the very gates of Changchun. They have now been turned back by Nationalist reinforcements and in this sense have suffered a defeat if, as has been suggested, their objective was a territorial victory to strengthen the hand that they hope the Soviets will play for them at the Moscow meeting. If, on the other hand, the principal objective was further to sap Nationalist strength, then they have achieved a victory. The Military Attaché's intelligent guess on casualties is 10,000 for the Government and 20,000 for the Communists in Manchuria, and 40,000 for the Government and 20,000 for the Communists in other areas, mainly Shantung.

"The establishment of general headquarters at Hsuechow seems to be a desirable and long-needed development from the Government standpoint in that it puts it in a better position to direct and control operations. The Military Attaché also states he sees signs on both sides of a decreasing desire to fight and more particularly by Government forces. Even high-ranking officers have said to him that whereas there seemed to be some point in endless fighting when the enemy was Japan, there is not much stomach for fighting when it is against Chinese. This lack of morale appears to be reflected among the troops who do not understand what the civil war is all about and who, in some instances, have been susceptible to Communist appeals to lay down their arms. The Generalissimo's insistence on increased pay to improve troop morale played a part in Soong's resignation.

"Against this grim background have been the political changes of the last 10 days, which, so far, are inconclusive. The reorganization of the State Council and the Executive Yuan is still in the negotiation stage. The stumbling block is whether and on what terms the Social Democrats will participate . . . .

"In the excitement of other events, the announcement by the Government of additional government, third party and non-partisan members to the Legislative and Control Yuan, the PPC, and the Standing Committee for the Enforcement of the Constitution caused only a minor ripple. The Government stand that this development



constitutes a significant step in the direction of relinquishing one-party control has received little attention and is not likely to do so pending reorganization of the State Council and the Executive Yuan.

"The heightened tempo of repressive police activities all over the country, and particularly in areas where the Communists have been most active has been widely reported and variously interpreted, depending on the political views of the commentator. This development has been strongly condemned in independent and left-wing circles. At the same time the attitude has been general that however reprehensible these activities may be, the Government can hardly be expected to loosen its controls as long as it is engaged in a life and death struggle. Concomitantly, there is general belief that with the return of all Communist delegations to their own territory the possibility of peace negotiations and political settlement has been indefinitely postponed, making all the more improbable any prospect of halting economic deterioration."

#### THE CAPTURE OF YENAN

The Generalissimo in his statement of February 16, indicating the intention of the Government to consolidate its current positions, had said: "On its part the Government will confine its military efforts to the protection and restoration of communication systems so necessary for the economic life of the nation and we shall spare no efforts to continue to seek for a political solution of the Communist problem." At that time Dr. T. V. Soong had categorically stated to the American Ambassador that both he and the Generalissimo were of the same mind, that Yen-an should not be attacked. Subsequently the Military Attaché was similarly advised by the G-2 section of the Ministry of National Defense. It was therefore not without significance that the Government chose the middle of March to launch an attack on Yen-an and capture the already largely evacuated Communist capital. The military claims of the Government subsequently proved to be exaggerated, but the psychological effect in non-Communist China at a critical point was important. From a strictly long-range military standpoint, the capture of Yen-an served principally to over-extend Government lines and drain the national economy. The Ambassador commented as follows on this subject:

"Although the Government claims it routed over 100,000 Communist troops, this appears to be a gross exaggeration since American observers during the return of Communist mediation personnel reported the virtual evacuation of Yen-an. It has long been apparent that the Communists have prepared well for this eventuality and that they never had any real intention of defending Yen-an should such

action appear to be costly. Rather it is more in keeping with their long developed tactics to evacuate any given point in the face of enemy pressure, draw him into a pocket, and thereafter gradually sap his strength with guerrilla tactics. Furthermore, Government lines are seriously extended into territory which can be counted upon to be hostile in all respects."

Indicative of Government confidence in a settlement by force was the public claim by the Chief of Staff at this time that the Communists would be defeated in six months. Coincidentally, the Generalissimo told Dr. Stuart that by the end of August or the beginning of September the Communist forces would either be annihilated or driven into the far hinterland.

### STUDENT DEMONSTRATIONS

It was symptomatic of the growing popular discontent that May and June should witness the most serious outburst of student demonstration and violence since the end of the war against Japan. In every major academic center of China students, for the most part with much sympathy from University faculties, went on strike, demanding an end of the civil war, effective action by the Government to improve national economic conditions and relief for their own increasingly desperate economic plight. Numerous deaths resulted from these demonstrations and it was only because of skillful handling of the situation in such key areas as Peiping and Shanghai by certain key individuals and the opportune ending of the school year, which permitted the Government to close the universities for the summer, that more serious disturbances were avoided. The Government was no doubt concerned over the implications of these disorders as indicative of mounting popular discontent. The situation was further complicated by a series of relatively minor but potentially dangerous rice riots coming at a time when the new crop had not yet been harvested and the stocks of the previous year were rapidly being exhausted.<sup>6</sup>

The Ambassador reported as follows on May 29:

"Over-all political scene which continues to be dominated largely by the economic and military situation, is deteriorating at an accelerated rate. Within recent weeks existing bad rice situation, brought about in the main by military requirements and hoarding, has added to the spreading unrest. On May 18 the Government issued an edict prohibiting student demonstrations which was immediately disobeyed in major urban centers and has resulted in further loss of prestige by

<sup>6</sup> See annexes 121 and 122 for Embassy reports of May 20 and June 4, 1947.



the Government. At the present time the students are actively agitating for a nation-wide general strike to commence June 2, but the student movement has thus far been characterized by considerable indecision and has not fallen under the control of any single group or party. There are strong indications, however, that the student movement will assume larger proportions and eventually come under the leadership of anti-Government groups, particularly of the Democratic League if not the Communists. . . .

"As general unrest and disillusionment increases, Communist prestige is enhanced, largely through recent military successes in north China and Manchuria. Although completely reliable information is not yet available, it is reasonably clear that in Manchuria the Central Government has suffered reverses along the Chinese Changchun Railway and at least a partial Government withdrawal in the Northeast may become necessary. Recent Communist military activities in Manchuria have been well coordinated with large-scale raids on north China and Jehol rail lines assisted in a large degree by the military blunderings of General Tu Li-ming. An important aspect of the north China situation is the evident Communist capability of disrupting communications between the Kailan mines and the sea which will have continual effect upon the coal supply situation, especially for Shanghai.

"Although anti-civil war sentiment is increasing, largely among student, academic and business groups, it has thus far not reached a point where it will be decisive in influencing the Government as evidenced by the character of the two statements issued by the Generalissimo this week. The fact that he felt called upon to issue any statement speaks for itself. One indication that there is growing sentiment among liberal Kuomintang members of the Government for peace negotiations was a resolution presented to the Legislative Yuan recently by some twenty of its members, calling for the resumption of peace talks and reportedly having the tacit approval of Dr. Sun Fo. On May 27, the PPC adopted a resolution to invite the Communists to resume peace talks which can be interpreted as largely a Kuomintang maneuver stemming from recent military reverses and growing anti-civil war sentiment, and designated to pin sole responsibility for continuation of the civil war on the Communists. In the face of Communist military successes, it seems unlikely that the Communists would be prepared to join in peace talks except on terms much more favorable than the Government is apparently now willing to accept.

"Nor is there any basis for believing that the Communists do not regard time and tide as working for them or that they would be willing at this time to accept equitable and feasible proposals.

"For the immediate future the gravest danger to the Government would result in this atmosphere if disaffection commences among National troops with the Government unable to supply adequate rations. There has been fairly steady deterioration of morale in the Government forces, especially in the Northeast, but for the time being it is believed that the Government can hold the loyalty of the best trained and equipped troops. It may be anticipated that Government efforts will be bent towards supplying these troops adequately and in expectation that civilian unrest can be held in check or quelled by a show of force."

#### CONTINUED DETERIORATION OF THE GOVERNMENT'S POSITION

The Ambassador further reported on June 7 as follows:

"It is obvious that the Government faces in Manchuria the probability of a military debacle of large proportions. It has already withdrawn from substantial areas previously under Government control. Judging from the ineptitude and incompetence thus far demonstrated by General Tu Li-ming, it is probable that the Government's defeat may assume even larger proportions. It seems to lie within the Communists' power either to continue to bleed the Government's strength in Manchuria or to force further Government withdrawal."

It was also symptomatic of popular uneasiness and confusion that the People's Political Council, which had played such a significant role during the war against Japan as a sounding-board of public opinion, should on May 26, in its last session before it passed out of existence, pass by a large majority a resolution inviting Communist representatives to come to Nanking for discussions on ways and means of bringing about the termination of the civil war. The Embassy pointed out that this resolution represented the growing discontent of Chinese intellectuals with the Government and the mounting demand for some kind of a peace settlement.<sup>7</sup> The People's Political Council at the same session, however, passed a resolution demanding continuation of the punitive action against the Chinese Communists.

The invitation of the People's Political Council was promptly and summarily rejected by the Communists as another evidence of Government insincerity. The Ambassador on June 18 reflected popular speculation on further developments in the following report:

"President Chiang believes that he had conclusive evidence of a Communist plot to create widespread disorders on June 2 and is no less convinced that the measures taken thwarted this. He unquestionably over-estimated the Communist influence in the recent student

<sup>7</sup> See annex 123.



demonstrations and probably realizes this now himself. There were divergencies in what occurred in the principal cities. The tragic death of three students in Wuhan University and the serious wounding of three others, together with a number of minor casualties were on the initiative of the Hankow garrison commander, who has been summarily dismissed.

"The PPC peace resolutions have been presented through the Standing Committee of that body to the State Council, which approved them in principle but has asked that they be made more concrete for final action at the next meeting of the State Council. . . .

"In contrast with almost all the other high officials President Chiang is maintaining his calm self-control and a somewhat sobered confidence. There is a general feeling of frustration among the others due primarily to the objective facts with which they are all familiar but intensified by the nervous fear of the Communists. . . .

"It requires a certain temerity to attempt any forecasts, but it would seem that one of three possible consequences will follow without much delay from the present critical conditions:

"1. President Chiang will assert himself as the leader of an attempt to settle the Communist issue either by securing their assent to renew negotiations or by demonstrating that they are in effect an armed rebellion and as such opposed to the national welfare. I have been hoping that he would be able to do this in a dramatic, revolutionary way that would catch the imagination of his people. This is probably expecting too much, but he has gone so far in discarding his earlier preconceptions and adopting progressive ideas that I believe he can be influenced to further advance. This will perhaps be slower and much less satisfactory than a more spectacular procedure but it has real possibilities and is perhaps by all odds the most hopeful solution.

"2. With the threatening catastrophe drawing closer it is quite possible that a nucleus of enlightened, non-partisan leaders may emerge who will attract the more liberal elements from within the Kuomintang, be supported by the politically conscious public and come to terms with the Communists. President Chiang would presumably disappear from the scene, Premier Chang Chun, T. V. Soong, or some other outstanding figure might assume leadership, and an *ad interim* coalition government be established. Among the disadvantages would be the inexperience of the new group and the inability, especially conspicuous among Chinese, of a loosely-formed body to cooperate effectively.

"3. There will be complete disintegration of the present Central Government with the Communists in control of their own territory, which they would use every effort to extend. Sectional governments

would be established under the strongest man or group in the area with all the evils of such chaotic and unstable conditions.”

Evidence of growing deterioration in the general situation and of increasing popular dissatisfaction with the Government and its conduct of the civil war was being received not only from the better-known urban centers such as Shanghai, Nanking and Peiping, but was also disturbingly obvious throughout all sections of the country. Perhaps the most disturbing report received by the Embassy came the last week in June from the American Consul General in Mukden. He reported the gradual worsening of the Government's military position, personal squabbling between military commanders, growing Communist initiative which kept Government forces disorganized and off-balance, the tightening of the economic situation and the slackening popular morale, which made the local populace increasingly receptive to almost any change which might offer some prospect of stabilization. It was a picture of Government corruption, inefficiency and aimlessness in the face of a major disaster.<sup>8</sup>

The downward course of the economic and financial situation in China during 1947 is described in more detail in chapter VIII, where the question of further extension of aid by the United States is also discussed. It was impossible for the United States Government to consider that question apart from the problem of reforms in the Chinese Government, since without such reforms no financial aid could provide a remedy.

## II. AMERICAN EFFORTS TO ENCOURAGE REFORMS BY THE CHINESE GOVERNMENT

During the war against Japan the United States endeavored to encourage the Chinese Government to effect various reforms which would serve to strengthen the Government and thus contribute to the fight against a common enemy as well as lay the foundation for stability and progress in the post-war period. At the request of the Chinese Government, the United States Government sent American advisers and technical experts to China to assist the Chinese Government in various fields, such as soil conservation, public health, cooperatives, animal husbandry, industrial production and medicine.

### AMBASSADOR STUART'S REPORTS

During the period of General Marshall's mission to China, both he and Ambassador Stuart repeatedly emphasized to the Chinese Government leaders the desirability and also the necessity of formulating

<sup>8</sup> See annex 124.



and carrying out measures of reform which would improve governmental administration and efficiency, win for it popular support and confidence and contribute to the effective use of American aid.

Following General Marshall's departure from China and in continuation of his efforts, Ambassador Stuart took every opportunity, in conversations with Government leaders, to stress the need for action by the Government which would result in the emergence of liberal elements to positions of leadership, the lessening of the influence of the reactionary group and the carrying out of basic measures of reform. It was felt that only through such action could the Government successfully meet the challenge of the Chinese Communists and be able to prevent dissipation of its own resources and to make effective use of American aid.

In the light of these considerations, great importance was attached to the outcome of the efforts and plans being made for reorganization of the Government. The Third Plenary Session of the Central Executive Committee of the Kuomintang met during March and its meetings gave some indication of the struggle for power between conservative and liberal factions of the Party. The two principal points of interest were (1) the efforts of certain factions within the Kuomintang to obstruct reorganization of the Government and (2) the struggle for power and position between the reactionary CC Clique and the loosely knit Political Science Group. On the first point, the Generalissimo, supported by the liberal elements, was successful in blocking the drive to stop reorganization. In the struggle between factions, the Generalissimo emerged in a stronger position than before, but at the same time the CC Clique continued in control at all levels of the Party machinery.

This intra-Party struggle for personal power occurred against the background of the deterioration of the Government's prestige and position and apparently without regard for its effect on the Government and unity of purpose. The Ambassador commented on March 12:

"Evidence of CC Clique expansion into the financial field will not increase banking and business confidence in the Government—it is also additional evidence of the Generalissimo's tactics of not allowing any one group to gain exclusive control over the finance of the country."

The Ambassador pointed out on April 5 some of the difficulties connected with the efforts for governmental reorganization and the Generalissimo's part therein:

"The tragic paradox of his position, of which he may be unaware, is that he is being compelled by circumstances to utilize the quali-

fications which the CC Clique can offer. At the same time this Clique exploits its preferred position to render more firm its hold on the Party and the country; and with time the Generalissimo, therefore, may well become less and less able to dispense with them or to circumscribe their activities which can only serve to aggravate those social conditions basically giving rise and strength to the Communist movement.”<sup>11</sup>

The Ambassador also commented:

“The Foreign Minister remarked the other day on the irony of a situation where the Generalissimo, having been made self-conscious about his ability to dictate a political settlement and consequently reluctant to use bludgeoning tactics, finds himself in endless political dickering which only delays that reorganization which his liberal advisors have been urging on him.”

The Ambassador also reported that the CC Clique was attempting to build itself up in the popular mind as the truly liberal and revolutionary element of the Party; that the CC Clique was putting its main effort into preparation for the elections which would precede the coming into effect of the constitution on December 25, 1947; and that preparations were proceeding for the termination of political tutelage.

The Central Executive Committee of the Kuomintang issued a manifesto on March 24 prior to the conclusion of its session. This manifesto did little to clarify the situation beyond general statements on broadening the basis of the Government, removing obstacles to national unification, stabilizing the national economy, striving for world peace and building up the potential strength of the country for national reconstruction.<sup>12</sup>

#### REORGANIZATION OF THE EXECUTIVE YUAN AND STATE COUNCIL, APRIL 17, 1947

On April 17 the reorganization of the Executive Yuan and the State Council was announced, with General Chang Chun as President of the Executive Yuan or Prime Minister. At the same time, Dr. Sun Fo, son of the founder of the Chinese Republic, was elected Vice President. Nominations by the Generalissimo for the other four Yuan showed no change. A series of official statements accompanied this completion of the reorganization. President Chiang, in a statement on April 18, hailed the reorganization as another step in the ending of political tutelage and again offered the Communists

<sup>11</sup> See annex 125.

<sup>12</sup> See annex 126.



an opportunity to participate in the Government if they would abandon their policy of seizing power by force. At the same time the political program of the National Government was announced, which largely followed the earlier outline of the manifesto of the Central Executive Committee of the Kuomintang, with the addition of guarantees for civil liberties. On April 23 the Minister of Information in his weekly press conference made a similar announcement on behalf of his Government that the Kuomintang had ended the period of political tutelage. The same evening the new Prime Minister, General Chang Chun, pledged himself and his Government to the fulfillment of the obligations which the Government had undertaken publicly during the preceding days."

In commenting on the reorganization of the Government, the Ambassador stated that it was too early to assess with any accuracy the eventual effect of the State Council reorganization and that any such assessment must be approached with caution in the light of a series of past Chinese Government reorganizations which had been largely for external effect and had brought little effective change to the Chinese domestic scene, even though the majority of Kuomintang members were forward-looking modern Chinese. The Ambassador further stated:

"In summary, the composition of the State Council is as regards the Kuomintang and independents as good as could be expected in the circumstances. Whether or not the State Council, which will constitute itself on April 23, if its members can reach Nanking by that date, will assert itself in such a manner as to bring about substantial social and economic reform in China remains, of course, a question depending upon many factors, not the least one being the attitude of the Generalissimo toward it and his ability to control the Kuomintang as the still dominant political party in China."

The Ambassador noted with some concern the establishment at this time of a separate Kuomintang political committee, the secretary general of which was Chen Li-fu, the leader of the CC Clique, and pointed out that it was a safe assumption that this committee would have an important role in controlling the Kuomintang political machine and establishing party policies. He concluded:

"In final analysis the major imponderable is whether or not the Generalissimo will be capable of seeking and being guided by the advice of liberal-progressive public servants rather than acceding to the reactionary henchmen personally loyal to him."<sup>13</sup>

<sup>13</sup> See annex 127 (a)-(d) for full text of statements.

<sup>14</sup> See annex 128.

While the governmental reorganization was a step in the right direction and gave some hope for improvement, the behind-the-scenes political maneuvering for power without regard for the position of the Government itself continued to hamper efforts toward improvement in administration. This disunity and the political machinations, despite the serious situation with which the Government was confronted, were reflected in the circumstances surrounding the student demonstrations which occurred on a nation-wide scale in May. The Ambassador's comment on these demonstrations evidenced their character:

"Leadership and motivation of the demonstrations have shown definite signs of changing. Most competent observers believe the original impetus was given by the CC Clique which was desirous of inciting a series of disorders which would in time publicly discredit a Political Science Group-dominated Government by proving it incapable of maintaining order, and in the long run provide the justification for a strong-arm, right-wing government coming into power either through a coup d'etat or through sweeping the elections to be held this fall."

These activities, of course, played into the hands of anti-Government elements and as stated by the Ambassador: "It must be assumed that the Communists are present and, if not already active, are prepared to exploit the situation should it become necessary or desirable."

On May 29 the Embassy reported on developments to the Department as follows:

"The reorganized Executive Yuan under Chang Chun is more strongly based than the previous T. V. Soong regime, but the political maneuvers of the CC Clique and the pace of economic and military developments have tied its hands to date. Furthermore, in the face of existing problems, non-Kuomintang participants in the reorganized Government have thus far shown no capacity for initiative. However, outlook for next few months is not, in the Embassy's opinion, for any spectacular collapse but in the direction of increasing deterioration in Government authority and control. In the meantime, general Government sentiment will continue to look to American aid as a means of staving off further economic and military deterioration."

Further indication of the need for positive measures by the Chinese Government to restore popular confidence was contained in the Ambassador's comments on the situation on June 18:

"The growing discontent with or even hostility toward the Government has been stimulated among intellectuals by the extremely harsh measures against students and among the unthinking masses by the



mounting costs of livelihood. In its simplest terms the complaints center around freedom and food."

The Ambassador further commented:

"President Chiang has been thinking very earnestly both over the situation as he is compelled to recognize its realities and over advice given him which, so far as I can gather, has all been very much to the same effect. In general, this is that the demand for peace is widespread and insistent, and the Government should be able either to persuade the Communists to stop fighting and resume peace discussions or to place the responsibility for continuing the civil war upon them, and furthermore that the Government should win back popular confidence by official statements calculated to keep the people much better informed than they have been hitherto of the problems and intentions of the Government. In my personal conversations with President Chiang I have been as frank as seemed permissible and have been cheered especially during the latest interview by what seemed to be on his part something more than a general assent in principle."

The Ambassador also observed:

"Actually much of the apparent strength of Chinese Communism is due chiefly to the inefficiency and corruption of the Kuomintang and—with an alarming acceleration—to popular loss of faith in the Government. One can be reasonably certain that with sufficient evidence of competent statesmanship and determined moral reforms the Government could recover its hold alike on the intellectuals and the masses."

#### THE POLITICAL SITUATION IN MANCHURIA

The same struggle for power and the intra-party rivalry which was hampering the National Government was vitally affecting the Government's position in Manchuria. During the latter half of June the Consul General at Mukden reported as follows:

"Rivalry (if not enmity) between General Hsiung Shih-hui, the Generalissimo's representative, and General Tu Li-ming, Commanding the Northeast Combat Command, is openly discussed and the absence of closely integrated military and economic planning is attributed to it."

The Consul General also described the attitude of Chinese Government representatives in Manchuria and the effect upon the Government as follows:

"Nationalist southern military forces and civil administrators conduct themselves in Manchuria as conquerors, not as fellow country-

men, and have imposed a 'carpet-bag' regime of unbridled exploitation on the areas under their control."

He continued that the result was to make the local populace in the countryside so antagonistic toward outsiders as to affect the morale of non-Manchurian troops and at the same time arouse vindictiveness in southern military officers and civil administrators. Commenting on the food problem at Mukden the Consul General said:

"Puerile efforts have been made toward price control and to combat hoarding, but in general, the results of these efforts have been largely to enforce requisitioning of grain at bayonet point for controlled prices and enable the resale of requisitioned grain at black market prices for the benefit of the pockets of rapacious military and civil officials."

It was thus inevitable that, as reported by the Consul General:

"Evidence is growing daily that the people of Manchuria are not only prepared for but are keenly desirous of a change in government. But what change? Most are undecided even though voluble in discontent of the present way of living and the trend of events. It is safe to state that the overwhelming majority in the nation are dissatisfied with, dislike and would welcome freedom from the present Nationalist regime."

When on June 19 the Generalissimo summoned the Ambassador and, after describing to him his estimate of the seriousness of the situation in Manchuria, asked for the Ambassador's opinion, Dr. Stuart made the following reply:

"I replied that it might be that the time had come for him to take emergency measures such as organizing a small but carefully selected group to work with himself, men respected by all and able to take responsibility as well as to form a team; to reduce expenditures by at least discontinuing all measures not needed for the emergency period; to make an announcement to the people that if the Communist Party finally refused the latest peace proposals the people of the country should hold them responsible; if they wished to preserve the democratic way of life as to be effected soon under constitutional government they should all work together to save the nation from the threatened danger; to this end all should work for the common purpose and contribute what they could of service or wealth; the Government should, respecting civil liberties, carry out the most immediate reforms with the courage and ruthless impartiality required by the crisis and



in all such ways win back popular support or ask to be relieved of the task; that I had always believed that such a revolutionary program would attract the thinking people, especially students and other supposed leftists; that he should allocate responsibility (for instance, military affairs) with a minimum of red tape, and himself tour the country making speeches and arousing the populace to rally to the new movement; that with the people behind him he need not fear the Communist military strength nor their other activities and should continue to keep the door wide open for a resumption of peace negotiations; that hopelessness and defeatism were paralyzing those who wanted to do something for the nation but under some such determined, progressive leadership they could be inspired to new hope and effort; and finally that I felt sure such a program would win abundant sympathy in America and elsewhere over the world. At the end, he said that he had been thinking along very much the same lines."

#### CHINESE MOVES TOWARD REFORM

In the face of a situation calling for the most resolute and clear-sighted action, the powerful Standing Committee of the Central Executive Committee of the Kuomintang on June 30 held an extraordinary and previously unannounced session to discuss general Party policy. After five hours of discussion, the Committee adopted three resolutions: (1) to continue and expand the "punitive action against the Communists"; (2) to draw up and put into effect plans for integrating the San Min Chu I Youth Corps into the Kuomintang; and (3) to set in motion preparations for the fall elections. Such inadequate measures at this critical time would have been farcical had they not been so tragic in their implications of a lack of driving force and determination to see the civil war through to a successful conclusion.

There was, however, apparently an awareness of the need for drastic action on the part of the National Government, as indicated by the resolution on general national mobilization passed by the State Council on July 4, which stated, *inter alia*:

"It is proposed that the State Council order a national general mobilization and encourage the people to help in its execution. Plans concerning the acceleration of economic reconstruction, the reform of local governments, the mobilization of manpower and resources, the improvement of food and conscription administrations, the maintenance of social order, the mitigation of the people's sufferings, the protection of their basic rights, the practice of thrift, the increases of agricultural and industrial production, and the amelioration of

the treatment of officers and men shall be carefully drafted by the competent authorities and enforced in accordance with law. The competent authorities shall also be instructed to guard against abuses in the execution of those plans.”<sup>15</sup>

This awareness was also reflected in statements made at this time by the Generalissimo and General Chang Chun, the Prime Minister. In an address to the nation on July 6 the Generalissimo said:

“Simultaneously, we must exert all-out efforts in effecting national reforms and improvements. While we are suppressing the Communist brigands with military means, the nation must also at the same time effect internal reforms.”

The President admitted

“that the Government in itself is not perfect while in the body of the Chinese society also are found many weak points, made all the weaker by the Communist rebellion. But, however difficult it may be for the nation to accomplish its goal, reforms and improvements must be effected.”

The official Central News Agency gave the following account of General Chang Chun’s statements on this same subject in a press interview on July 5: “During the period of national general mobilization, the Government will see that all orders are faithfully and promptly carried out,” he said. “Government officials should win the confidence and cooperation of the people and coordination among various Government departments should be further strengthened. Corruption and delinquency among Government officials and armed forces should be wiped out,” General Chang emphasized.<sup>15a</sup>

The Generalissimo again reflected this increasing awareness of current needs in his radio broadcast on July 7, the tenth anniversary of the beginning of Sino-Japanese hostilities:

“Unless drastic reforms are introduced, China may not be able to exist in the family of nations. Therefore, political, educational, economic and social reforms, which should be made, shall not be delayed until the conclusion of the suppression campaign, but will be initiated right away. . . . It was for the purpose of concentrating our efforts to effect an over-all reform and remove all obstacles in the way of national reconstruction that national general mobilization was ordered.”<sup>16</sup>

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<sup>15</sup> See annex 129.

<sup>15a</sup> See annex 130.

<sup>16</sup> See annex 131.



**THE COMMUNISTS PROCLAIMED TO BE IN OPEN REBELLION, JULY 4, 1947**

The resolution on general national mobilization adopted by the State Council on July 4 also proclaimed the Chinese Communists to be in open rebellion against the National Government and demanded that the resources of the country be devoted to their suppression. This part of the resolution was reinforced by statements issued shortly thereafter by the Generalissimo and the Prime Minister, General Chang Chun, in which it was emphasized that the Government was determined to carry out and make effective the national mobilization and suppress the Chinese Communist rebellion. It is interesting to note that the Generalissimo said, "We have never attempted to castigate Communism as a theory or idea. . . . The Government was willing to give full consideration to their opinions, but no peace talk—no mediation—has succeeded in dissuading the Communists from staging a rebellion."

Thus ended a long chapter in Kuomintang-Communist relations, begun in 1937, during which there had been alternate periods of negotiations and military clashes. The Chinese Government had now abandoned its previous publicly expressed policy of seeking to solve the Communist problem by political means and was proclaiming the Chinese Communists to be rebels against the Government's authority who were to be suppressed by military force.

On July 19, the Central News Agency published the text of "The Outline for the Implementation of Mobilization to Suppress Rebellion and Complete Constitutional Government," which was adopted by the State Council on July 18, to become effective immediately. Its 18 articles were general in scope but provided an adequate framework if the Government should succeed in implementing them effectively.<sup>17</sup>

**SECRETARY MARSHALL'S MESSAGE OF JULY 6, 1947**

On July 6, Ambassador Stuart had delivered to the Generalissimo a message from Secretary of State Marshall, as follows:

"We have been following closely the situation in China and are perturbed over the economic deterioration resulting from the spread of hostilities. We are keenly aware of China's needs and the Generalissimo is thoroughly familiar with the general tenor of my ideas. I cannot presume in my position to offer advice as to how he should deal with the specific situation in Manchuria. In all frankness I must point out that he was forewarned of most of the present serious difficulties and advised regarding preventive measures.

<sup>17</sup> See annex 132.

"In the final analysis the fundamental and lasting solution of China's problems must come from the Chinese themselves. The United States cannot initiate and carry out the solution of those problems and can only assist as conditions develop which give some beneficial results. Please assure the Generalissimo of my continued deep personal concern over events in China and of my earnest desire to find ways of being helpful."

In transmitting this message to the Generalissimo, Ambassador Stuart stressed his confidence that the United States wished to assist and strengthen China as a free nation, but pointed out that it was a most difficult task to decide upon an effective kind of aid and methods by which it might be rendered. The Ambassador further said that military aid alone would not lead toward the type of development in China which the United States held essential for China's own good. The Generalissimo informed Dr. Stuart that he thoroughly understood the meaning of the message, that he had heard these points from General Marshall when he was in China and that he was grateful for this renewed expression.

In reply to the Generalissimo's inquiry as to the Ambassador's interpretation of the message, Dr. Stuart said that he had many times outlined to the Generalissimo the type of adjustments which were considered prerequisites to a more positive policy and assistance on the part of the United States. He said that the type of change which he had in mind centered around basic reform through constitutional institutions within the body of the Government, including the delegation of more authority, the establishment and visible maintenance and protection of civil liberties, and the actual development of a more intimate working relationship between the Government and the people. Dr. Stuart stated that the State Council's general national mobilization resolution had in some of its parts certain of the ideas for reform which his Government thought were so necessary, but that there was no assurance that this new order would mean more than many which had previously been issued. The Ambassador again emphasized the need for drastic over-all reform. The Generalissimo replied that he understood what was meant and that he would undertake to do something along these lines as soon as possible.

#### AMBASSADOR STUART'S OBSERVATIONS ON NORTH CHINA AND MANCHURIA

Following a brief trip to Peiping, the Ambassador on July 15, at the request of the Generalissimo, described to him conditions in North



China and Manchuria as he found them. His report of these observations to the Generalissimo is as follows:

"Independent Chinese and American reports from Manchuria agree that conditions are extremely serious not merely from a military point of view but because of the hostility of the people alike toward Communists and the Central Government. Military officers of the Central Government of all ranks are exploiting the populace, enriching themselves, and consequently there are stirrings of separatist feelings. I said that it was my strong opinion that reliance on trusted local leaders with a large measure of autonomy would strengthen the Government position and neutralize Communist success in using these same methods.

"I said I found the north China people somewhat relieved because temporary Government gains in Manchuria removed immediate threat, but discontent was almost as intense as in the northeast. This discontent seemed generally true throughout the country and was becoming rapidly intensified.

"The Generalissimo remarked that economic conditions accounted largely for this, to which I replied that fiscal and economic deterioration was more a symptom and that it was the general feeling of hopelessness and impending disaster that led to increasing military graft, especially in Manchuria. In short, war weariness and increasing forebodings were paralyzing military efforts. I smilingly charged the Generalissimo with having used in his latest statement my own language about a new revolution but without my emphasis on reform and constitutional liberties, restricting his own statement in effect to one of fighting Communists. The Generalissimo agreed somewhat more heartily than usual with my statements and admitted that others could see developments sometimes more clearly than he and asked that I draft specific suggestions. In this latter connection I am taking no action for the time being."

On August 11, Ambassador Stuart again repeated his plea to the Generalissimo that radical reforms be undertaken.<sup>18</sup> On August 19, in a report on the situation,<sup>19</sup> Dr. Stuart spoke of the growing number, both within the Government and outside it, who admitted the logic of the pleas that the Chinese should adopt self-help measures and put their own house in order, but who felt utterly impotent in view of the conservatism, feudalistic ideas, selfishness, narrow prejudices and similar limitations prevalent among those who had the power to effect reforms. He also said that while the signs of willingness

<sup>18</sup> See annex 139.

<sup>19</sup> See annex 140.

and ability to institute progressive reforms were still sadly lacking there were some such signs.

Following a brief visit to Peiping, the Ambassador reported to the Department on September 8 his impressions of conditions in North China as follows:

"The prevailing attitude of students, is . . . quite revealing, especially when they are thought of as a rough register of the trend in public opinion. In both Tsing Hua and Yenching Universities the anti-Communist element is reported as certainly 90% and more probably 95%, and the anti-Kuomintang-Government proportion as fully 90%. In the University of Peiping, Government sympathizers claim that the percentage opposed to the present administration is much lower. My guess would be that these figures are a fair index of student thinking generally over the country. The obvious conclusion would seem to be that the people—even the more radical and immature—are instinctively against Communism and could easily be won to support a truly reformed National Government. Among the students Chiang Kai-shek, as the symbol of Kuomintang rule, has lost greatly in esteem. To most of them he is frankly finished.

"Another impression is the extent to which Soviet inspired literature is being read by students and the unthinking way with which they accept and quote assertions, about the United States for instance, which are palpably untrue. If we are to undertake a program of active assistance to China I earnestly hope that it will be accompanied by provision for carefully planned publicity.

"Conditions in Communist controlled territory are described to me as follows. The more intelligent country people live not so much in actual discontent or hardship as in fear of what might happen to them at any time. The others accept relative economic insecurity and the regulations imposed on them rather passively. The children are growing up with more or less enthusiasm for the existing regime and are taught to believe all that is evil of the National Government and America. The situation is still somewhat plastic but will become fixed with time. There is general agreement that better local administration with complete assurance that there would be no danger of the certain reprisals if the Communists came back would result in a welcome for the National Government. Economic distress is widely prevalent but there is food for everyone.

"There is great satisfaction in North China over the appointment of General Chen Cheng to supreme authority in Manchuria and the dismissal of Hsiung Shih-hui. The purging of army officers and other reforms, as reported in the local press, have made a fine impression.



"Marshal Li Tsung-jen is gaining in public confidence. There seems no reason to credit rumors of his disaffection toward the National Government. Governor Sung Lien-chung complains—as usual—of having insufficient troops under his command to cope with the Communists in Hopei. The Mayor is working diligently to arouse interest in the coming elections and has drafted college professors and others to visit the different precincts of the city and give lectures on the subject. But he is discouraged by the small numbers registering for casting ballots. It is not clear how much of this apathy is due to fear and how much to indifference or ignorance."

### III. THE WEDEMEYER MISSION

#### INTRODUCTION

While the situation continued to deteriorate and popular discontent with and criticism of the Government increased, the Chinese Government seemed incapable of taking, or unwilling to take, effective steps to meet the serious problems confronting it. There seemed to be rather a feeling of apathy, defeatism and spiritual bankruptcy which led inevitably to a complete psychological dependence upon external aid as the sole means of solving China's problems with little regard to the realities of a situation in which Chinese efforts and measures of self-help were the essential and basic need.

#### GENERAL WEDEMEYER'S INSTRUCTIONS

In view of these circumstances, the President on July 9, 1947, pursuant to the recommendation of the Secretary of State, instructed Lieutenant General Albert C. Wedemeyer to proceed immediately to China and Korea on a fact-finding mission. This decision was announced on July 11.

The President instructed General Wedemeyer to "proceed to China without delay for the purpose of making an appraisal of the political, economic, psychological and military situations—current and projected. In the course of your survey you will maintain liaison with American diplomatic and military officials in the area. In your discussions with Chinese officials and leaders in positions of responsibility you will make it clear that you are on a fact-finding mission and that the United States Government can consider assistance in a program of rehabilitation only if the Chinese Government presents satisfactory evidence of effective measures looking towards Chinese recovery and provided further that any aid which

may be made available shall be subject to the supervision of representatives of the United States Government.

"In making your appraisal it is desired that you proceed with detachment from any feeling of prior obligation to support or to further official Chinese programs which do not conform to sound American policy with regard to China. In presenting the findings of your mission you should endeavor to state as concisely as possible your estimate of the character, extent, and probable consequences of assistance which you may recommend, and the probable consequences in the event that assistance is not given."

#### CHINESE REACTION TO THE APPOINTMENT

The reaction in China was mixed. Dr. Wang Shih-chieh, Minister for Foreign Affairs, expressed the views of his Government as follows:

"The Chinese Government as well as President Chiang Kai-shek welcome the appointment of General Albert C. Wedemeyer as special envoy representing the President of the United States on a fact-finding mission to China and Korea. He is a staunch old friend of China. When he served in the China theatre during the latter part of the war, his contributions to Sino-American collaboration and his achievement in strengthening the China theatre were widely appreciated.

"It is my belief that his coming visit will vastly facilitate a more complete understanding of the Chinese situation by the American people, further strengthen Sino-American friendship and cooperation and be conducive to general stabilization of the situation in the Far East."

The Chinese Government believed that General Wedemeyer's mission would result in immediate and substantial economic and military aid. For the same reason, liberal and opposition groups were skeptical of the mission, fearing that aid would only prolong the civil war. Chinese Communist reaction was bitterly hostile.

#### GENERAL WEDEMEYER'S STATEMENTS OF AUGUST 22 AND 24, 1947

During the month that General Wedemeyer and his mission remained in China they visited the principal centers of the country and talked with a very large number of people, both in and out of the Government, and representing all shades of opinion and interests, as well as with American and other non-Chinese businessmen and officials. On August 22, in accordance with the Generalissimo's suggestion, General Wedemeyer delivered an address to a joint meeting of the State Council and all the Ministers of the National Government, at which the Generalissimo and Madame Chiang and the American Ambassador



were also present. In this address he was strongly critical of the military effort of the Government and of the corruption and inefficiency prevalent in its ranks. He said in substance that the National Government could not defeat the Chinese Communists by force but could win the loyal, enthusiastic and realistic support of the Chinese people only by improving the political and economic situation immediately. He stressed that the effectiveness and timeliness of these improvements would determine whether the National Government would stand or fall.<sup>20</sup> Although the General prefaced and concluded his remarks with expressions of genuine friendship for China, Ambassador Stuart reported that those present at the gathering, predominantly of the old scholar class, generally regarded the remarks as offensive. President Chiang was also apparently offended and, in bidding the General farewell, chided him for allegedly refusing to see certain groups of substantial persons in the cities visited. General Wedemeyer, however, protested his desire to see as many different types as his schedule permitted. President Chiang also renewed his request that the General provide him with a list of names of Chinese with large financial holdings abroad, but General Wedemeyer felt that since the names had been given him in strictest confidence, he would have to refuse.

General Wedemeyer reinforced his views by a statement issued at Nanking on August 24 at the time of his departure from China:

"In China today I find apathy and lethargy in many quarters. Instead of seeking solutions of problems presented, considerable time and effort are spent in blaming outside influences and seeking outside assistance.

"It is discouraging to note the abject defeatism of many Chinese, who are normally competent and patriotic and who instead should be full of hope and determination.

"Weakened and disrupted by long years of war and revolution, China still possesses most of the physical resources needed for her own rehabilitation. Recovery awaits inspirational leadership and moral and spiritual resurgence which can only come from within China. . . .

" . . . the existing Central Government can win and retain the undivided, enthusiastic support of the bulk of the Chinese people by removing incompetent and/or corrupt people who now occupy many positions of responsibility in the Government, not only national but more so in provincial and municipal structures.

"There are honorable officials who show high efficiency and devotion to duty, who strive to live within ridiculous salaries and such

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<sup>20</sup> See annex 133.

private means as they possess, just as there are conscientious businessmen who live up to a high code of commercial ethics. But no one will misunderstand my emphasis upon the large number whose conduct is notoriously marked by greed, incompetence or both.

"To regain and maintain the confidence of the people, the Central Government will have to effect immediately drastic, far-reaching political and economic reforms. Promises will no longer suffice. Performance is absolutely necessary. It should be accepted that military force in itself will not eliminate communism."<sup>21</sup>

#### CHINESE REACTION TO GENERAL WEDEMAYER'S STATEMENTS

The reaction in China to General Wedemeyer's statement of August 24 was in general unfavorable except among the liberal opposition groups. Typical of the reaction was an interview given by the Prime Minister to the United Press in which he charged that General Wedemeyer had failed to understand the situation in China and had not impartially sought his information.<sup>22</sup> The announcement of General Wedemeyer's Mission had led to expectations of immediate aid and the effect of his speech to the State Council meeting and his parting statement had served to dispel hopes of substantial assistance and had in turn caused resentment. The Chinese Communists, apparently fearful of American aid, were also bitter and in a broadcast of August 28 attacked General Wedemeyer in strong terms.<sup>23</sup>

Ambassador Stuart reported that on August 25, his own personal secretary, Philip Fugh, had been quizzed by the Generalissimo regarding the background of the Wedemeyer Mission, as to why it was regarded as necessary, and whether it meant that the United States wished to force his (Chiang's) retirement or removal. This inquiry may have been prompted by General Wedemeyer's reference to the need for "inspirational leadership" in China. Ambassador Stuart concluded that the General's talk had been a "rude shock to the Chinese Government," but he felt that "most politically conscious non-partisan and liberal Chinese undoubtedly largely endorse all that the Mission has said."<sup>24</sup>

General Wedemeyer was seriously concerned at the reaction to his final press statement and to his talk before the State Council. A letter which he wrote to the Ambassador on August 30 indicated his surprise at the reaction:

<sup>21</sup> See annex 134.

<sup>22</sup> See annex 136.

<sup>23</sup> See annex 137.

<sup>24</sup> For full text of the Ambassador's report, see annex 141.



"The members of my mission and I have carefully perused the Chinese and American reaction to our final press statement. You know and the Generalissimo should know that the objective was to assist him in instituting reforms and reorganizing his government to facilitate economic and political stability. You can reassure him that all the members of my mission are friendly to China.

"As far as the reaction to my talk before the State Council and the Ministers is concerned, the Generalissimo asked me to make this talk and urged complete frankness. The Generalissimo's Secretary strongly reiterated that the Generalissimo wanted a frank appraisal of my observations. You personally confirmed my hope when we were returning from the talk that my frank appraisal was sorely needed and was well received. You added that my statements were made courteously and with due regard for the sensibilities of those venerable officials who were present.

"The members of my Mission again join in thanking you and the members of your staff for the assistance and courtesies they received."

General Wedemeyer on September 8 repeated his concern over the reaction in a letter to the Secretary of State as follows:

"Reference is made to Ambassador Stuart's resume of my talk to assembled Chinese officials, including the Generalissimo, members of State Councils, and Ministers. The Generalissimo strongly and repeatedly urged this talk and Ambassador Stuart concurred. At the conclusion the Ambassador stated that if my Mission served no other useful purpose, the value of the talk fully justified the presence of the Mission in China. I was particularly careful in presenting the data in a courteous manner in order not to offend the finer sensibilities of the venerable gentlemen and high officials present. I emphasized that I made the talk upon the repeated request of the Generalissimo to whom I had previously related observations. I refrained meticulously from any hint or suggestion concerning my conclusions or projected recommendations. This visibly piqued and disappointed Chinese officialdom. I prefaced the talk with the statement that I was appearing before the assembled officials as a friend and not as a Presidential envoy. My action requires no defense or apology. However, the above information appears pertinent in the light of Ambassador Stuart's messages concerning the subject and also in view of both favorable and unfavorable Chinese reactions."

Prior to his departure the Chinese Government had handed General Wedemeyer a memorandum setting forth an account of Kuomintang accomplishments in the thirties, a justification of the Government position and a reaffirmation of the Government's determination to

see the civil war through to a successful conclusion. In this memorandum the Government claimed that it had already undertaken most of the internal reforms recommended by the United States.<sup>25</sup>

#### RECOMMENDATIONS OF THE WEDEMEYER REPORT

Following a brief visit to Korea, General Wedemeyer returned to Washington and on September 19 presented his confidential report to President Truman.<sup>26</sup>

The controversy in the United States surrounding this Report arose largely from the fact that the United States Government did not make it public. The President had originally requested this appraisal of the situation in China for his own guidance and that of the Secretary of State and not for public use. General Wedemeyer's analysis of the situation in China was in general similar to that submitted to the Department of State in numerous reports by the American Embassy and American consular officers in China and by General Marshall himself. Among the recommendations of the Report, however, was one requiring immediate action by the United Nations to place Manchuria under a Guardianship of Five Powers including the Soviet Union, or a United Nations Trusteeship. It was the conviction of the President and the Secretary of State that any such recommendation, if made public at that time, would be highly offensive to Chinese susceptibilities as an infringement of Chinese sovereignty, and representing the Chinese Government as incapable of governing Chinese territory. It was also believed that it would no doubt be rejected by the Chinese Government as it would in a sense represent at least a partial alienation of Chinese territory to a group of powers including the Soviet Union. In any event, they believed that to place upon the United Nations responsibility for action to implement such a recommendation might well seriously endanger the future of that organization, which at that time was already confronted with other grave and pressing problems. The Generalissimo was confidentially advised by the Secretary of State of the impediments this recommendation had placed in the way of the publication of the Report, and vouchsafed no comment.

The Wedemeyer Report recommended in general that the United States provide military and economic aid to China under a program of assistance over a period of at least five years requiring Congressional authorization. It also provided for financial assistance to China for reconstruction projects and eventually for currency stabilization, while at the same time recognizing: "The present fiscal situa-

<sup>25</sup> See annex 138.

<sup>26</sup> See annex 135 for full text of those portions of the Wedemeyer Report dealing with China.



tion is inopportune for the introduction of a new currency or the adoption of even an intermediate step towards stabilization."

The Report indicated that improvement of the economic situation through American aid should open the way for further constructive support in the future from existing agencies, such as the Export-Import Bank, the International Bank and Monetary Fund and private Chinese and foreign capital. In its military phases the Report recommended that military advice and supervision be extended in scope to include field forces, training centers and particularly logistical agencies, but it recognized the desirability of avoiding direct United States involvement in the civil war by indicating: "Although advice indicated above does provide advice indirectly to tactical forces, it should be carried on outside operational areas to prevent the criticism that American personnel are actively engaged in fratricidal warfare."

In addition to the stipulations regarding action by the United Nations, reference to which has been made previously, the Report recommended other stipulations as precedent to United States aid:

"That China make effective use of her own resources in a program for economic reconstruction and initiate sound fiscal policies leading to reduction of budgetary deficits.

"That China give continuing evidence that the urgently required political and military reforms are being implemented.

"That China accept American advisors as responsible representatives of the U. S. Government in specified military and economic fields to assist China in utilizing U. S. aid in the manner for which it is intended."

#### IV. INTERNAL DEVELOPMENTS IN CHINA

##### FOURTH PLENARY SESSION OF THE KUOMINTANG CENTRAL EXECUTIVE COMMITTEE

The Fourth Plenary Session of the Central Executive Committee of the Kuomintang opened at Nanking on September 9, 1947, with the announced purpose of consolidating the San Min Chu I Youth Corps with the Kuomintang. There was, however, much speculation that the Session would have a more important task. According to reliable information the Generalissimo in his opening address, which was largely a repetition of remarks he had made to the Standing Committee the preceding June, said that for twenty years he had been attempting to implement the principles of Sun Yat-sen and that he had to admit failure but was determined to continue. But he scathingly denounced the Party for failing to solve China's problems and

absolved himself from all responsibility. From this point he proceeded to charge that the members of the Kuomintang had also failed, that the Communists had proved themselves abler and more devoted and that without reform and rejuvenation the Kuomintang was doomed to extinction. The Generalissimo asserted that China would never again be dependent on the United States for assistance. He said that China's policy toward Japan was in line with that of the Soviet Union, with which country China would have to strengthen its relations, while preserving its traditional tie of friendship with the United States. It is noteworthy that an elaborate if general program of reform was proposed during the Session and that it was expected to be adopted. At one of the final meetings, however, the Generalissimo demanded that the reform program be dropped and that in its place the Kuomintang proceed to carry out unfulfilled promises made during the previous two years. The final manifesto of the Fourth Plenary Session, published on September 13,<sup>27</sup> did not indicate any specific accomplishments of the meeting.

On September 20 the Embassy reported its appraisal of the meeting to the Department of State:<sup>28</sup> The reported reform was believed to be related to the Wedemeyer Mission and to the desire to comply with American requirements for assistance. The consolidation of the Youth Corps was sought, however, in order to draw the younger elements into the Party, and to eliminate the growing friction between the Kuomintang and the Youth Corps. The consolidation achieved by the meeting was reportedly not very successful, and the Central Executive Committee accomplished very little. The Session involved a sparring for position, which might lead to a purge. The CC Clique emerged in a stronger position than previously, owing to its control of the Youth Corps and its ability to exploit internal and international conditions. The disappointing outcome of the Wedemeyer Mission played an important role in the Session, for it belied the expectations of the Government, which had expected substantial aid or at least specific promises from that Mission.

In a further report on September 20<sup>29</sup> regarding the general situation the Embassy pointed out that the most disheartening feature of the Chinese situation, in economic as well as in other fields, was the overt reliance upon American aid to extricate China from its pressing problems and a corresponding lack of self-reliance and self-help in meeting these problems. The political, military, and economic position of the Central Government was said to be continuously

<sup>27</sup> See annex 142.

<sup>28</sup> For full text of this report, see annex 143.

<sup>29</sup> For full text, see annex 144.



deteriorating, and the failure of the expected assistance from the Wedemeyer Mission to materialize, combined with renewed Communist military activity, was intensifying a tendency to panic. Supporting the Generalissimo's reference to the Soviet Union, thinly veiled suggestions were emanating from high officials of the Chinese Government to the effect that China might have to seek assistance from that country, and that the Soviet Ambassador to China might be asked to mediate in the civil war. Such talk was regarded as primarily for effect on the United States, and secondarily as a reflection of a feeling of desperation among Chinese leaders. There was also an increasing Chinese fear that the United States was tending to shift the center of gravity of its Far Eastern policy from China to Japan. The large-scale raid of Liu Po-cheng into Anhwei and southern Honan was a matter of great concern, and the military situation in Shantung had deteriorated. The military situation in Manchuria was said to be quiescent, but a sixth Communist offensive was thought to be imminent. The expected Communist offensive would probably be coordinated with one in North China. Communist radio broadcasts had stated that the offensive to "liberate" China north of the Yangtze had been launched, but it was not thought that this objective would be attained "within the foreseeable future." It was disheartening to see the Chinese reliance on the *deus ex machina* of American aid, as illustrated by the presumption that the deficit in China's balance of payments would be met by the United States in one form or another.

On September 27 the American Consul General in Shanghai reported that the CC Clique there was increasing its power and dominating the Kuomintang's preparations to ensure that the successful candidates in the coming election were "elite party supporters plus such few political beggars as it may seem expedient to accept as window dressing." In this connection the Consul General forwarded reports that T. V. Soong had made a bargain with the CC Clique which involved his appointment as Governor of Kwangtung and that H. H. Kung was presumably involved in the bargain. Shanghai reports also indicated that the Government's anti-Americanism at this time had been inspired by the right wing of the Kuomintang, which found it an effective method of weakening the Political Science group.

#### AMBASSADOR STUART'S REPORT OF SEPTEMBER 29, 1947

Two days later, Dr. Stuart reported to the Department as follows:

"There is not much evidence yet of success in dealing with graft, which is becoming more prevalent in the worsening economic situation.

But President Chiang is at least trying to tackle the problem. The Control Yuan has been given considerably more authority with instructions to exercise it in this matter. One hears constantly of those who have been brought to trial. An instance, which is a somewhat acid test for any Chinese official, is the son of an old and honored friend of President Chiang, now at the head of the Postal Administration but charged with flagrant speculation, whom President Chiang ordered to be punished according to law regardless of all other considerations.

"The powers of the local police are being enlarged as part of the plan for eliminating or at least restricting the activities of military police and secret service men. . . .

"There are not a few hard-working, public-spirited progressives in the Government who share our dissatisfaction with it and who earnestly desire for their country all that we have expressed as our hope for China. But their difficulties are very real. Just to mention one of many, the members of the two minority parties brought in to broaden the basis of the Government are showing themselves to be even more rapacious for office and its perquisites than many of the Kuomintang, with no improvement in administrative efficiency. These progressives and their many sympathizers outside would be immensely heartened by some indication of our intention to assist them and would, in my opinion, be the nucleus through which we can go a long way toward realizing our aims for China and for a stable peace in this part of the world. But they do not see much hope without such aid from us and any authoritative indication of our policy would be very reassuring."

On October 11, members of the Military Affairs Committee of the American House of Representatives who were visiting in China called on the Generalissimo. In answer to their questions he stated his belief that the Chinese Communists were thorough-going Communists, working in collusion with and taking orders from Moscow, and that they constantly received supplies from Russia. He repeated his request for greater American aid and then said that "the predicament in Manchuria was an American responsibility." In conclusion he said that if the Government were finally defeated it would not be because of Russia or the Chinese Communists, but because the United States had failed to give promised assistance at a time of desperate need.

In a report to the Department on October 29, Ambassador Stuart found no reason to change his previous estimates.<sup>30</sup>

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<sup>30</sup> See annex 145.



## OUTLAWING OF THE DEMOCRATIC LEAGUE, OCTOBER 28, 1947

Additional developments concerned the minor parties. Partly as a result of Government pressure, and partly as an indication of dissension within its own ranks, Carson Chang's Social Democratic Party was bitterly split during August and September and ended up as two separate groups with consequent diminution of such influence as it had possessed. Henceforth little was to be heard of it except for that faction which joined with the Government and became largely a rubber-stamp of the Kuomintang.

During September and October there were increasingly frequent reports that the Government was planning action against the Democratic League on charges that it was subservient to the Communists. Finally, on October 28, an official decree outlawed the League and made it subject to the provisions of the General National Mobilization Order of July 4.<sup>31</sup>

The prominent leaders of the party were not arrested and, as a result of negotiations between the League and the Government, the League on November 6 announced its formal dissolution.<sup>32</sup> The Government decree was never revoked and it was apparent that the Generalissimo was determined to eliminate the League from public activities.<sup>33</sup>

## POSSIBILITY OF RESUMPTION OF PEACE NEGOTIATIONS

During the winter of 1947-1948 rumors of peace negotiations with the Chinese Communists again became current. This time the possibility of Russian mediation was injected. On December 20, 1947, General Chang Chih-chung, who had played a leading role in the negotiations while General Marshall was in China, told the American Ambassador that he had recently discussed the situation with the Generalissimo. He had argued with the Generalissimo that the only solution lay in the resumption of the PCC resolutions, but the latter remonstrated that he could not take the initiative—though he would not object if General Chang made cautious inquiries. General Chang also told Ambassador Stuart that prior to his conversation with the Generalissimo he had approached the Soviet Embassy in Nanking for help in persuading the Chinese Communists to resume peace talks. He had warned the Russians that China could never be won over to Russia against the United States, and had insisted that in aiding China the United States had no ulterior motives against the Russians. He said the Russians seemed impressed, and in reply to their inquiry

<sup>31</sup> See annex 146.

<sup>32</sup> See annex 147.

<sup>33</sup> See annex 148.

as to what they might do, he said that they might advise the Chinese Communists to stop fighting.

On the other hand a statement was issued on December 25 by Chairman Mao Tse-tung of the Central Committee of the Chinese Communist Party.<sup>34</sup> The statement was one of triumph and confidence, as well as a series of vitriolic attacks on the United States as the great enemy of the world and the agent responsible for continuing the civil war in China.

Subsequently the private secretary to the Generalissimo confirmed to the Embassy that the Russians had offered to mediate in the Chinese situation. The secretary stated emphatically, however, that the Generalissimo had not given his approval to the activities of General Chang Chih-chung and that the Chinese Government neither desired nor believed possible any accommodation with the Chinese Communists at that time. However, it was increasingly apparent during January 1948 that there were elements in the Chinese Government which favored a political settlement. The Embassy on January 23 reported to the Department its belief that something might come of this trend in favor of negotiations because of the increasingly unfavorable position of the Government, and the apparent determination of the Chinese Communists to carry the fighting to Central and South China. It was clear that responsible Chinese Government officials were also concerned by this latter possibility.

On February 6 the Ambassador found that the Chinese Foreign Minister was seriously perturbed over the military situation in Manchuria. The Foreign Minister stated that he believed the renewed attacks by the Chinese Communist forces on Mukden arose from the Chinese refusal of the Russian offer of mediation. He told the Ambassador that the Soviet Chargé d'Affaires, acting on instructions, had requested protection for Russian citizens in Manchuria. When the Chargé remonstrated that the Soviet Union had never given China cause for misgiving, the Foreign Minister reminded him of the behavior of Russian troops after entering Manchuria in August 1945.

On March 8 the Embassy at Nanking commented as follows on these and related developments:

"There is increasing evidence that despite the announced intention of present Government leadership to continue the civil war, strong opposition to this policy by civil and military officials, as well as by the general public, particularly the intellectuals, may soon become sufficiently strong to compel present leadership to abandon this policy in favor of negotiated peace or face the threat of being

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<sup>34</sup> See annex 149.



discarded. It is difficult at the moment to define precisely the scope of this opposition or its strength, but the fact of its existence or of its growth can hardly any longer be denied. The disintegration and decay which has characterized all phases of the Government's activities during the past several years continues and in recent weeks has been accentuated. It is increasingly apparent that the Government is over-extended militarily, with resulting inability to prevent continued economic deterioration and has reached a point where its overall political control is imperiled.

"The Government now exerts only a tenuous control over approximately one per cent of Manchuria and not more than ten or fifteen per cent of that part of China proper north of the Yellow River. Between the Yellow River and the Yangtze there are strong Communist elements and there has been infiltration even south of the Yangtze. Government forces are hard pressed and on the defensive in practically every theater. There is increased demoralization, a fatalistic feeling that collapse of the government is inevitable, and a decided trend toward regionalism; each regional leader is looking about for means to defend himself against the Communists when he can no longer call on Nanking.

"With this alarming situation there is need for inspired leadership which is not forthcoming. Those in control of the government seem almost frantic in their search for solution, yet incapable of taking the necessary initiative. Increasingly, it is the Generalissimo who must make the decisions and he continues the slave of his past and unable to take the drastic measures required. He may be expected, we believe, doggedly to continue the fight with the idea that if worse comes to worst, he can withdraw to Canton where T. V. Soong is engaged in building a stronghold, and let regionalism again prevail. There is, however, likelihood that opposition within the Government may not permit this course of action. This opposition is well aware of the perils of Soviet mediation, but appears inclined to prefer such mediation to a continuation of the current struggle, the only end to which they increasingly fear will be a Communist-dominated China.

"Such a negotiated settlement would likely require the disappearance from the political scene of the present dominant leadership, including the Generalissimo. Yet, we cannot rule it out. While present criminally inept and wasteful strategy can postpone temporarily the loss of major strategic points, it cannot do so indefinitely. By far the greater part of the Government's military and economic resources have been committed to Manchuria and North China. Despite the scale of this commitment it has not forced, and shows no sign of forcing, a decision on the Government's behalf. Failing

American economic aid on an impossibly large scale, failing active American military aid, and failing competent Chinese leadership and planning, there may be revolt within the ranks of the Kuomintang and acceptance of the Soviet offer to mediate in the forlorn hope that such a compromise would give a breathing spell for regrouping, consolidation, and the emergence of some dynamic quality that would again create the will to victory now lacking. The dangers of coalition with Communists are well known to those in opposition. Most likely accommodation would, therefore, be on a purely territorial basis which would, in effect, be but a temporary, though perhaps prolonged, truce. In any case, we feel it is entirely possible that non-Communist elements released by such event from the dead traditional hand of present leadership, might rally to American assistance with a complementary possibility of the development of political, economic and spiritual resources, which might eventuate in stable non-Communist government in Central and South China."

#### ELECTIONS TO THE NATIONAL ASSEMBLY

In the meantime, the principal internal preoccupation apart from the civil war had been, as it would continue to be for the next six months, the elections for the National Assembly—the Assembly itself was to establish the first constitutional government—and the struggle within the Kuomintang for power. This interest was manifested in a series of political crises. Despite predictions and speculation to the contrary, the Government held the elections late in 1947 according to schedule. In the absence of the Communists and the Democratic League, these elections were between the various factions in the Kuomintang and the two minor parties, the Social Democrats and the Youth Party, which had agreed to participate. For a number of reasons the results were slow in coming in, though there was little doubt as to the eventual outcome. In the end it was apparent that majority influence in the new National Assembly and the Legislative Yuan would lie with the CC Clique, the extreme right-wing faction of the Kuomintang. It was precisely here that the Government found itself confronted with an ironic situation. It was publicly committed to a certain proportional representation by the minor parties, but when the results were tabulated it was seen that practically none of the minor party candidates had been successful, and that they had lost to either the CC Clique or independent Kuomintang candidates. The Government was faced with the difficult and embarrassing necessity of persuading successful candidates to withdraw after they had won, in order to comply with the commitment on broadening the Government. This was only made possible by an *ex post facto* declaration that only



those Kuomintang candidates would be considered successful who had prior approval of the Party. This decision was later to create difficulty for the Generalissimo at the spring meeting of the National Assembly, which decided to rebel against his authority. Even the over-all victory of the CC Clique would later prove, in part, illusory on a national scale. It also became apparent that the real strength of the CC Clique lay in its control over local administrations.

#### DISTURBANCES IN SHANGHAI

Early in February there was an outbreak of disturbances in Shanghai, attended by some loss of life and destruction of property. The discontent this time did not center in any one particular group but appeared to be fairly general throughout the city and to be a general reflection of discontent with the manner in which the Government was prosecuting the war and handling civil administration. Neither the Embassy nor the Consulate General in Shanghai believed, however, that these disturbances forecast any imminent over-all breakdown of law and order, especially in view of the determined and imaginative action by the mayor. They felt, rather, that the disturbances were more the signs of things to come.<sup>35</sup>

### V. REDEFINITION OF AMERICAN POLICY

#### CONSIDERATIONS UNDERLYING THE FORMULATION OF A PROGRAM OF AID TO CHINA

For several months prior to October 1947, the Department of State, together with the National Advisory Council, had been making studies of China's balance-of-payments position with a view to its bearing on a program of further aid to China. In the latter part of October the Department of State began the formulation of such a program.

In this connection several basic factors had to be taken into consideration: It was recognized that in the main the solution of China's problems must largely be a task for the Chinese themselves. A United States program of aid to China should not be such as would place the United States in the position of direct responsibility for the conduct of the fighting in China or for the Chinese economy. The United States Government could not virtually take over the Chinese Government and administer its economic and military affairs. Any such undertakings would have involved the United States in a continuing commitment from which it would have been practically impossible to withdraw regardless of circumstances or of Chinese Government actions.

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<sup>35</sup> See annex 150 (a) and (b).

Account also had to be taken of the heavy burden of foreign aid which the United States was assuming elsewhere and of the limitations on the extent to which American resources could be drawn upon for foreign aid under the peacetime organization of its economy.

Secretary Marshall reflected these considerations when, during the hearings on the China aid program in February 1948, he stated that an attempt to underwrite the Chinese economy and the Chinese Government's military effort represented a burden on the United States economy and a military responsibility which he could not recommend as a course of action for this Government. Nevertheless, it was believed that the United States should do what was feasible under existing circumstances and that the proposed program of aid for China would, as the President stated to the Congress on February 18, 1948, "assist in retarding rapid economic deterioration and thus give the Chinese Government a further opportunity to initiate the measures necessary to the establishment of more stable economic conditions. But it is, and has been, clear that only the Chinese Government itself can undertake the vital measures necessary to provide the framework within which efforts toward peace and true economic recovery may be effective."

The new proposal did not call for a long-term recovery program extending over 5 years, as recommended by General Wedemeyer. As Secretary Marshall stated before the House Committee on Foreign Affairs on February 20, 1948, "it is very necessary to have in mind that a proposal at the present time cannot be predicated upon a definite termination for the necessity of such assistance as in the case of the European Recovery Program." It was evident that no long-range recovery program could be developed until the Chinese Government had demonstrated its capacity to take, with substantial United States assistance, initial steps toward laying the basis for further constructive efforts. The Department of State's program thus called for aid over a 15-month period during which the Chinese Government would have a further opportunity to take initial steps to this end.

With respect to the question of military aid, as recommended by General Wedemeyer, the Department of State's proposed aid program, calling for 570 million dollars in economic assistance, was sufficiently large to free the major portion of the Chinese Government's own foreign exchange assets for the purchase of such military supplies as it might wish to obtain from foreign sources. It was not considered desirable that the United States embark upon a military aid program calling for the use of United States military advisers in combat areas or upon measures of military aid which would have led to United States military intervention in China or to direct United States in-



vovement in China's civil strife. For these reasons, it was considered that the Chinese Government's requirements for military matériel from foreign sources should be met through purchases from its own resources, largely freed for such use through the proposed program of economic aid, and that the existing United States military advisory groups in China would enable the United States to extend advice and assistance within the framework of the considerations outlined above.

It was against the background of these considerations that the Department of State's proposed China aid bill was presented to the Congress in February 1948. The Congress passed legislation authorizing aid for China on April 2, 1948, the title of which was the China Aid Act of 1948. The Department's proposals for a program of aid to China and Congressional action on these proposals are described in greater detail in chapter VIII.

#### SECRETARY MARSHALL'S PRESS CONFERENCE OF MARCH 10, 1948

Meanwhile the question of American policy toward China was again suddenly and inadvertently raised. In an interview with an American correspondent early in March, the remarks made by the American Ambassador were misinterpreted to mean that he favored a coalition government. Despite his clarification on the following day, some confusion persisted. At Secretary Marshall's regular press conference on March 10, a correspondent, referring to Congressman Fulton's statement before the House Foreign Affairs Committee that there had never been a disavowal of American policy favoring a coalition government in China to include the Communists and that this apparently was still American policy, asked the Secretary if this were so. Secretary Marshall replied that the principals, Chiang Kai-shek and the head of the Communist Party, Mao Tse-tung, had reached a partial agreement in September 1945. Then, he said, in November 1945 they had reached a formal agreement for a meeting of the Political Consultative Conference, and on December 17 there had been another agreement between Mao Tse-tung and Chiang Kai-shek, the basis of it being that it was to bring all Chinese parties together in a discussion to endeavor to settle the problem by political means. On December 15 President Truman had announced his statement of the policy of the United States Government. Secretary Marshall pointed out that the terms had been expressed in very broad language, that is, that the Chinese should widen the basis of their government and give representation on a broad basis. Asked if this were still our policy, Secretary Marshall replied in the affirmative, pointing

out that it was not intended to force the Chinese to do this on the basis of any issues which had previously arisen.

For the background of the correspondents, Secretary Marshall pointed out certain essential differences between the situation in China and the situation in European countries. In China a single party, the Kuomintang, and the Government had been practically identical for some time. The problem of "coalition" in the European sense, where various established parties exist, did not really arise in the Chinese situation. What did arise was the question which the Chinese themselves had been discussing for some time of granting parties other than the Kuomintang, including the Communist Party, some representation in at least the legislative branches of the Government. Neither the Communist nor any other party except the Kuomintang had had any representation in the legislative branch. The Secretary explained that, when he was in China, the Chinese Nationalist Government was following a policy of settling its disputes with the Communists as a political matter on the basis of negotiation instead of using force for their suppression. He had participated as a mediator in these discussions.

Since these remarks also were misinterpreted, the Department of State issued the following release on March 11:

"In view of misunderstandings that have arisen concerning the Secretary's statements about China at his March 10 press conference, it is pointed out that the Secretary referred to President Truman's statement of December 15, 1945. That statement expressed the belief of the United States 'that peace, unity and democratic reform in China will be furthered if the basis of this Government (China's) is broadened to include other political elements in the country'. The Secretary said that this statement still stands. When asked specifically whether broadening the base of the Chinese Government meant we favored the inclusion of the Chinese Communist Party, he replied that the Communists were now in open rebellion against the Government and that this matter (the determination of whether the Communists should be included in the Chinese Government) was for the Chinese Government to decide, not for the United States Government to dictate."

#### PRESIDENT TRUMAN'S PRESS CONFERENCE OF MARCH 11, 1948

On the same day, questions were put to the President at his press conference concerning the inclusion of Chinese Communists in the Chinese Government. The President was specifically asked whether he still supported the statement he had made on December 15, 1945. The President replied that this statement still stood. In answer to



further questions, he explained that it was not the policy of the United States to urge the National Government of China to take Communists into the Government, but that the policy of the United States, which had further been carried out by General Marshall on his mission to China, was to assist the Chiang Kai-shek Government to meet the situation with which it was confronted. He expressed his hope that the Chinese liberals would be taken into the Government, but stated that "we did not want any Communists in the Government of China or anywhere else if we could help it."

## VI. CHANGES IN THE CHINESE GOVERNMENT

### ELECTION OF PRESIDENT CHIANG AND VICE PRESIDENT LI TSUNG-JEN

Events were now moving toward the first constitutional Assembly, which was to meet on March 29 for the election of the President and the Vice President. It was anticipated that this meeting would be a crucial one for the Government, and the Embassy in its reports of March 17 and March 31 saw nothing to warrant any optimism.<sup>36</sup> Practically the entire time and attention of prominent members of the Government during these days were taken up with the struggle for allocation of seats in the Assembly and, subsequently, in the jockeying for position over the election for President and Vice President. The struggles reached such extremes that at one point certain disappointed aspirants to the National Assembly staged a hunger strike at a Nanking hotel. Actions such as this at this desperate point in the history of the Government only served to increase dissatisfaction with and criticism of the Government and, in particular, the Generalissimo. In answer to this criticism the Generalissimo made it clear that he would not accept the office of President. He offered to serve his country in any other capacity but it was known that he was considering the presidency of the Executive Yuan and would allow the office of President to become similar to that of the President of France. Early in April, he instructed the Party to vote for Dr. Hu Shih, the distinguished Chinese scholar and former Ambassador to the United States, as President, and Dr. Sun Fo, son of the founder of the Republic, as Vice President. The immediate reaction was an almost unanimous demand in the Assembly that the Generalissimo reverse his position and accept the office. Bowing to the popular will which acclaimed him as the only possible choice, he accepted. This resulted in a great

<sup>36</sup> See annex 151 (a) and (b).

increase in his prestige, though not sufficient to enable him to impose his will in the vice-presidential election.

The three leading contenders for the Vice Presidency were Dr. Sun Fo, who was the choice of the Generalissimo; General Ch'eng Chien, one of the oldest and highest ranking generals of the army and Governor of Hunan; and General Li Tsung-jen, a member of the Kwangsi Clique and for many years one of the most prominent members of the Kuomintang. General Li had staged a highly successful campaign and had succeeded in rallying around himself most of the liberal and other elements in the Assembly strongly desirous of reform and changes in the Government. Resolution of this conflict required many days of political juggling and several ballots, but in the end General Li won, despite all the pressure which the Generalissimo brought to bear on recalcitrant members of the Assembly. Immediately following this election there was widespread hope that a genuine and inspired reform movement would now arise to bring about those changes which all agreed were necessary if the National Government were to avoid disaster. In time, however, it became apparent that nothing of the sort would happen.

General Li himself took no action, despite all rumors, and claimed that he could do nothing because the Generalissimo still controlled the Party machine, Government finances, and the army. It was typical of the manner in which the Generalissimo set about disciplining the Party rebellion that at the Presidential inauguration the newly-elected Vice President was left entirely in the background, and when the Presidential party drove off after the inaugural ceremonies he was ignored. These developments did not augur well for the future of unity in prosecuting the war against the Communists, and the hopes aroused by the election of General Li on what was, in effect, a popular movement for change and reform, were soon shattered.<sup>37</sup>

#### THE SEARCH FOR A NEW EXECUTIVE YUAN

The struggle for power within the Kuomintang was carried over into the search for a new Prime Minister and Executive Yuan. The names most prominently mentioned for the premiership were those of General Ho Ying-chin; the incumbent, General Chang Chun; Dr. T. V. Soong; and the Foreign Minister, Dr. Wang Shih-chieh. The Generalissimo appears to have favored General Ho but refused to meet his conditions. In the end the compromise selection was Dr. Wong Wen-hao, an eminent geologist, chairman of the National Resources Commission, and a man of unquestioned personal integrity, but totally without political following. It was apparent that the new Govern-

<sup>37</sup> See annex 152 (a)-(n).



ment was composed of loyal followers of the Generalissimo and that he would continue to have the final word on all decisions. Public reaction to the new Government was generally unfavorable and the preliminary reports of the Government and the Legislative Yuan gave little hope for confidence.<sup>38</sup>

The Ambassador reported to the Department on June 24 as follows:

"The crucial problem is still the personality of President Chiang. He is fully cognizant of the current deterioration. He listens patiently to warnings as to the inevitability of disaster unless new policies are adopted and to suggestions regarding these. He seems sincerely determined to act in accordance with the theory of his new office and under constitutional procedure. But there is actually very little change in his methods.

"I had been hoping that with the appointment of General Ho Ying-ch'in as Minister of National Defense the military operations would be delegated to him with real authority and that General Barr could work closely with him.<sup>39</sup> I had urged this course upon the President and had received his assurance of agreement provided only he were kept constantly informed. I had also discussed the matter more than once with General Ho who heartily concurred in the advisability of this plan and promised that he would do his best. Yet the President has just issued an order that all operations are to be carried out under instructions from him through the Chief-of-Staff—the incompetent Ku Chu-t'ung!

"General Pai Ch'ung-hsi had been relieved of his post as Minister of National Defense, presumably for helping in the election of Li Tsung-jen. He was then offered the important task of commanding the troops in the five provinces between the Yellow and Yangtze Rivers and after long hesitation accepted, only to learn that he would not be allowed to organize local militia in this area—a feature which he has always strongly advocated—and that certain regions, such as that surrounding the Wu Han cities, would be out of his jurisdiction. He thereupon withdrew his acceptance and left in disgust for Shanghai. The President showed no regret and remarked that this was of no importance. He seems suspicious that the Kwangsi Clique have designs against him and is thus alienating, or at least losing the effective cooperation of, men who by every test have been loyal both to him and to the national cause.

"These instances of recent happenings will seem grimly familiar to you. I have more than ever a sense of frustration in endeavoring to

<sup>38</sup> See annex 153 (a)–(e).

<sup>39</sup> General Barr's mission is discussed below, chapter VII.

influence the President's thinking. I have an easy access to him and am invited to say anything to him without reserve. No Chinese dares to say to him what many even among his closer associates are now thinking and they are looking to me with a pathetic expectancy. And yet I feel impotent to accomplish anything that helps to reverse the downward trend.

"There is a very wide-spread anti-American sentiment crystallizing in protests against our efforts to strengthen Japan. This is being revealed by the vehement attacks upon my message to the students.<sup>40</sup> It is rather puzzling to account for this phenomenon. To explain it as due entirely to Communist or Soviet instigation is an oversimplification. This has of course helped to create it by skillful propaganda and to organize it by agents planted both among faculties and students. But there must be a receptive mood to have produced so general a response and among so many who are normally pro-American. This is perhaps caused in large part by a fear of Japan which began in the closing years of the last century and has become instinctive as well as deeper than we can readily imagine. It is aggravated by distorted reports of our activities in Japan, including those from Chinese official sources, by misconceptions and false inferences, by the publication of the Draper [report on the industrial potential and reconstruction of Japan] and similar reports, by the cynical assumption that we would not hesitate to sacrifice China in preparing for our private war with Russia, and of course by deliberate, unrelenting and malicious propaganda. Another very real factor is the all but universal dissatisfaction with the present Government and the irrational but easily understandable association of America with its existence or its failings. The students, more highly sensitized than other elements of the population, are utterly dispirited and with no proper outlet for their patriotic urgings. An agitation against America for restoring their old enemy to a position of becoming again a potential menace has a curious appeal under these depressing circumstances. Apart entirely from these forebodings and their utilization by Communist and other anti-Government factions are the selfish and shortsighted commercial or industrial groups which seek to avoid Japanese competition. The extremely profitable and perhaps none too efficient Shanghai textile industry, for instance, wishes to maintain for itself the Chinese and Southeastern Asia markets. Thus strangely enough the extreme left and crassly capitalistic interests unite in disapproving our intentions in Japan. We cannot be too careful in carrying out those intentions to give no slightest cause for reasonable misapprehension."

<sup>40</sup> See below, p. 277.



## STUDENT RIOTS

The students, to whose attitude Ambassador Stuart referred, made known their discontent in a series of riots and demonstrations which extended throughout the length and breadth of the country and even into Manchuria, wherever student groups were found. As usual, the disturbances began in May as examination time approached, and there were many who again thought that they would die down when the examination period had passed. But this time there was more substance to the agitation, and it continued with greater or lesser intensity deep into the summer. The students had learned the lesson of previous years of Government repression of their activities and this time, instead of attacking the Government to reveal their dissatisfaction with their situation, they chose to attack the Government indirectly by protesting American policy in Japan. In this campaign they were abetted by other groups who honestly or for ulterior reasons disapproved of that policy. By early June the anti-American demonstrations had become so violent and irrational that Dr. Stuart felt compelled to appeal to his long relationship with Chinese academic groups. He therefore on his own initiative issued a statement,<sup>41</sup> which had a sobering effect on many of those to whom it was addressed, but the agitators who had seized control of the movement for other purposes managed to keep the disturbances going for many weeks. With the passage of weeks, interest shifted to other and more pressing subjects. On August 17 the Executive Yuan issued an order forbidding disturbances which were calculated to give aid and comfort to the enemy,<sup>41a</sup> and the movement quickly collapsed.

During July the Embassy and the Consulates, in a series of reports to the Department, had outlined in some detail the situation and their concern with it.<sup>42</sup> On July 30 the Ambassador summarized his views as follows:

"We can be quite certain that no amount of military advice or material from us will bring unity and peace to China unless indeed there are reforms sufficiently drastic to win back popular confidence and esteem. That these could even be attempted by those now in power or that the improvements could be rapid and radical enough to reverse the prevailing attitude is scarcely to be hoped for. But without this assurance the intention to give increased military aid ought to be carefully considered in all its implications. Even under the most hopeful conditions such aid would probably require some two years

<sup>41</sup> See annex 154.

<sup>41a</sup> See annex 155.

<sup>42</sup> See annex 156 (a)-(d).

or more from next January to accomplish its objective in view of the basic necessity of training new divisions and of recovering lost territory and morale."

#### ECONOMIC REFORM DECREES OF AUGUST 19, 1948

In a desperate move to stem the tide of economic deterioration, the Government on August 19 promulgated a series of drastic reform measures, which are treated in greater detail elsewhere in this paper.<sup>43</sup> These measures produced a temporary boost in morale in many parts of the country and public opinion in China initially felt that if they were forcefully implemented there was a chance of salvaging the situation. The test case was Shanghai, where the Generalissimo appointed his son, General Chiang Ching-kuo, as economic czar. At the outset young Chiang gave every indication that he would carry out his orders ruthlessly and he announced that special privilege would receive no consideration. Before many weeks had elapsed, however, it became apparent that he was attacking vested interests stronger than himself. The basic fallacy of the August decrees was that they failed to provide the necessary and sufficient measures for a genuine currency reform or to take account of the conditions which had created the crisis. Instead, they attempted to freeze the situation by the imposition of police measures which paralyzed the economic life of Shanghai and other urban centers and in the end further worsened the situation of small and medium businessmen without appreciably affecting the major operators.<sup>43a</sup> Repression could hold the line for a few weeks, but as trade came to a standstill, as the note circulation increased and as the refusal of producers to send stocks of foodstuffs into Shanghai created an emergency food shortage, the artificial controls gave way to pent-up economic pressures and the tempo of economic deterioration reached an unprecedented rate. The military disasters which were about to strike served to accentuate the deterioration. On November 1 Chiang Ching-kuo resigned.<sup>44</sup>

It was symptomatic of the situation that on November 4 the official Kuomintang organ, the *Chung Yang Jih Pao*, should publish an editorial highly critical of the Government suggesting that it might well learn something from the Chinese Communists.<sup>45</sup>

As the situation became worse for the National Government, the Communists in their turn not only reflected growing confidence but also a heightened stridency in their attacks on the United States. Fol-

<sup>43</sup> See p. 396.

<sup>43a</sup> See annex 157 (a)-(c).

<sup>44</sup> For his statement at the time of his resignation, see annex 158.

<sup>45</sup> See annex 159.



lowing a period of seeming conciliation, they returned to their former line that the United States was the great enemy. In so doing their statements came more and more to resemble the Kremlin propaganda line.<sup>46</sup>

## VII. ALTERNATIVES OF AMERICAN POLICY

### SECRETARY MARSHALL'S POLICY DIRECTIVES OF AUGUST 12 AND 13, 1948

During these depressing and disastrous months the Government increased its efforts to secure additional American aid, not only through direct approach but also through publicity. Both the Embassy and the Department of State felt an increasing need to review American policy and to determine what, if any, changes should be made.

On August 10 the Embassy, after reviewing the military, economic, and psychological factors of the situation, recommended (1) that "American efforts be designed to prevent the formation of a coalition government" including Communists in the light of the history of such coalitions in other areas of the world and that continued or increased support of the National Government was the best means to this end, although it was possibly already too late; (2) that, if the march of events resulted in some kind of an accommodation with the Chinese Communists, American "influence should be used to arrange a cessation of hostilities on a basis of a very loose federation with territorial division which would leave as large an area of China as possible with a government or governments free of Communist participation"; and (3) that, in the event of a return to regionalism in China, American economic aid be given to strengthen regional governments so as to "permit basic anticommunist Chinese characteristics to reassert themselves and correspondingly weaken sympathy for the Communists."<sup>47</sup>

The Secretary of State on August 12, 1948, outlined the following points for the Embassy's general guidance:

"1. The United States Government must not directly or indirectly give any implication of support, encouragement or acceptability of coalition government in China with Communist participation.

"2. The United States Government has no intention of again offering its good offices as mediator in China.

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<sup>46</sup> See annex 160. For a recent statement in this vein by Mao Tse-tung, see annex 120.

<sup>47</sup> For full text of the Embassy's report, see annex 161.

"Overt United States opposition to Chinese Government compromise with the Chinese Communists (or even secretly expressed opposition, which would likely become known) would at this juncture provide ammunition in China for propaganda alleging that the United States was encouraging and prolonging the civil war. It could also mislead the Chinese Government to expect unlimited aid which could not eventuate under the existing world situation and in any circumstances would require congressional action. Any informal expression of United States Government attitude toward these questions should, at this stage of developments in China, be confined to the two points outlined above. You should, of course, overlook no suitable opportunity to emphasize the pattern of engulfment which has resulted from coalition governments in eastern Europe."

On August 13 Secretary Marshall observed:

"While the Department will keep actively in mind the questions raised, it is not likely that the situation will make it possible for us at this juncture to formulate any rigid plans for our future policy in China. Developments in China are obviously entering into a period of extreme flux and confusion in which it will be impossible with surety to perceive clearly far in advance the pattern of things to come and in which this Government plainly must preserve a maximum freedom of action."

#### POLICY REVIEW OF OCTOBER 1948

Toward the end of October the Embassy again pointed out the continuing deterioration and inquired whether there had been any changes in Washington. To this the Secretary replied:

"There is general agreement with your assumption that the United States purposes in the Far East would as in the past be best served by the existence of political stability in China under a friendly Government, and American policy and its implementation have been consistently directed toward that goal. However, underlying our recent relations with China have been the fundamental considerations that the United States must not become directly involved in the Chinese civil war and that the United States must not assume responsibility for underwriting the Chinese Government militarily and economically. Direct armed intervention in the internal affairs of China runs counter to traditional American policy toward China and would be contrary to the clearly expressed intent of Congress, which indicated that American aid to China under the \$125,000,000 grants <sup>47a</sup> did not in-

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<sup>47a</sup> See chapter VIII.



volve the use of United States combat troops nor United States personnel in command of Chinese troops. Public statements in Congress by leaders of the Senate Foreign Relations Committee, which initiated Section 404 (b) of the China Aid Act, indicated that aid to China under the \$125,000,000 grants must be completely clear of the implication of the United States underwriting the military campaign of the Chinese Government, since any such implication would be impossible over so vast an area.

"Our China Aid Program was designed to give the Chinese Government a breathing spell to initiate those vital steps necessary to provide the framework within which the base for economic recovery might be laid and essential for its survival. It was clear that in the main solution of China's problems was largely one for the Chinese themselves and the aid was intended to give the Chinese Government further opportunity to take measures of self-help.

"The general basic considerations governing our approach to the China problem were set forth in my statement before the Senate Foreign Relations and House Foreign Affairs Committees executive sessions, a copy of which was forwarded to you. The United States Government must be exceedingly careful that it does not become committed to a policy involving the absorption of its resources to an unpredictable extent as would be the case if the obligations are assumed of a direct responsibility for the conduct of the civil war in China or for the Chinese economy, or both. To achieve the objective of reducing the Chinese Communists to a completely negligible factor in China in the immediate future, it would be necessary for the United States virtually to take over the Chinese Government and administer its economic, military and governmental affairs. Strong Chinese sensibilities regarding infringement of China's sovereignty, the intense feeling of nationalism among all Chinese, and the unavailability of qualified American personnel in large numbers required argue strongly against attempting such a solution. It would be impossible to estimate the final cost of a course of action of this magnitude. It certainly would be a continuing operation for a long time to come. It would involve the United States Government in a continuing commitment from which it would practically be impossible to withdraw, and it would very probably involve grave consequences to this nation by making of China an arena of international conflict. Present developments make it unlikely that any amount of United States military or economic aid could make the present Chinese Government capable of reestablishing and then maintaining its control throughout all China. There is little evidence that the fundamental weaknesses of the Chinese Government can be basically corrected by foreign aid. These con-

siderations were set forth in my statement in February and they are certainly no less true under present circumstances.

"Despite American aid since V-J Day, including the China Aid Program, deterioration has continued to a point, as you say in your report of October 22, where the present regime has lost the confidence of the people, reflected in the refusal of soldiers to fight and the refusal of the people to cooperate in economic reforms. This description is generally consistent with that given in previous Embassy reports and Shanghai's report of October 21, which quotes [a high Government official], a strong supporter of the Generalissimo, as saying that 99 percent of the people are against the Government, and Taipei's report of October 22 which quotes [a high official] as saying that unless the Government gets out of office soon the people themselves are about ready to throw them out.

"In your report of May 26 you state that the present Government lacks the capability to halt the spread of Communism and will continue to lack the capability unless, as seems unlikely, it can find the inspired leadership needed to rally people and restore to the National armies the will to fight. You also say that the Generalissimo cannot be expected to provide that leadership as he seems incapable of change and gives every evidence of intention to persist in personal rule which has resulted in the present sad state of affairs.

"Furthermore, in your report of June 14 you described the Generalissimo's assurance of agreement with your recommendation regarding the conduct of military operations by General Ho Ying-chin with General Barr's close collaboration and his subsequent instructions to the contrary that all operations were to be carried out under the Generalissimo's instructions through his 'incompetent' Chief of Staff.

"Your report of June 22 states that it would appear that the Generalissimo's predisposition to appoint his old and personally trusted comrades, regardless of their proven corruption or lack of ability, to posts of responsibility still outweighs his desire for good government.

"Your report of August 10 states there is no longer faith that the present Government can bring a return to an even bearable standard of living without some radical reorganization; that without the Generalissimo disintegration seems inevitable, yet long experience with him suggests that he is no longer capable of changing and reforming or discarding inefficient associates in favor of competent ones; that one would expect the Government to clutch at any means of improving the situation but it ignores competent military advice and fails to take advantage of military opportunities offered, due in a large part to the fact that the Government and the military leadership continue to deteriorate as the Generalissimo selects men on the basis of personal re-



liability rather than military competence; and that there is awareness of the desperate military situation yet no evidence of the will or capability to cope with it.

"In your report of August 20 you state that General Barr's advice to the Generalissimo on specific problems arising from the conduct of current military operations has in general been ignored and that the grave difficulties encountered by General Barr in the accomplishment of his mission originate entirely in the failure of the Chinese high command to perform its functions.

"In your report of August 10 you state we must recognize that the present Government or any anti-Communist Chinese combination can scarcely be expected to completely eliminate the Communist menace by military or any other means.

"Your report of October 16 states that there are not many Chinese who continue with conviction to support the Generalissimo except his immediate followers and certain ranking military officers, and that the Government, but especially the Generalissimo, is more unpopular than ever and is increasingly denounced. You also say that it is difficult to see at this late date how any efforts on our part, short of armed intervention on a very large scale, can avert further military disaster, with the likelihood that coalition in some form will result.

"In your report of October 22 you say 'our military advisers' feel that the Nationalist military establishment has very likely already suffered too great losses in manpower, matériel and morale to make any such effort successful, that there is just no will to fight left in the Nationalist forces and that you can find no effective way to change the situation. You further state that a moral resurgence of Chinese will to resist Communist aggression is required and that the requisite leadership just is not available.

"The foregoing picture of the China situation and its possible developments is generally borne out by some fifteen other Embassy reports between May and October. This appraisal is also borne out by other information reaching the Department, such as Tientsin's report of October 14.

"Recent Nationalist military reverses support the foregoing picture. Tsingtao's report of October 1 states that the majority of Government troops at Tsinan did not want to fight, while those that did fight found their position made impossible by the disaffected, and that the Government forces at Tsinan had ample ammunition and food, and assurance of further supplies in the event of a protracted siege. Mukden's report of October 19 gives a similar picture of the fall of Chinchow, stating that the early collapse of Chinchow's defenses was caused by the defection of two divisions of the Government's 93rd

Army. The fall of Changchun was similarly aided by the defection of Government units. In each case the fall of the cities was reportedly accompanied by the loss of considerable quantities of military matériel through the defection and surrender of sizable numbers of Government troops.

"Possibly pressing the Generalissimo for removal of incompetents does not appear promising in the light of his recent appointment, as you reported on October 19, of General Tu Li-ming to command in the Northeast in the face of repeated American advice against placing him in a responsible command. The reference to increased JUSMAG [Joint United States Military Advisory Group in China] personnel, functions and authority after prior agreement by the Generalissimo on the acceptance and implementation of JUSMAG advice as the price of stepped-up aid flies in the face of all previous experience of American advisers in China. You will recall the decisions regarding United States military advisers reached in my meeting with Secretary Royall, Undersecretary Draper, General Bradley, General Wedemeyer and others on June 11, when it was agreed that United States military advisers should not be placed with Chinese units in operational areas.

"With reference to shipments of arms and ammunition as quickly as possible, the United States National Military Establishment is making every effort to speed delivery of military matériel being purchased from the \$125,000,000 grants. The Department of the Army states informally that the loading of nearly all the ammunition covered by the Chinese request for 37.8 million dollars of arms and ammunition is expected to be completed on the West Coast about mid-November and the shipment should reach China by early December. Every effort is being made to expedite the shipment of other matériel under this program. The National Military Establishment is also endeavoring to arrange shipment of all arms and ammunition which SCAP can advance and delivery of this matériel is expected to be made during November. Authorization for the disbursement of the \$103,000,000 requested by the Chinese Government from the \$125,000,000 grants has been transmitted by the Department to the Treasury Department and the latter has paid to the Chinese Government, or to the United States Departments of the Army, Navy and Air Force, as directed by the Chinese, \$97,000,000 of this total, the balance of \$6,000,000 to be paid October 25. You will realize no means exist to extend military aid to China other than United States assistance to the Chinese Government under the \$125,000,000 grants.

"In summary, adoption of a course of increased aid would violate all basic considerations underlying American policy toward China,



would involve the United States directly in China's civil war, would commit this Government to underwriting the Chinese Government militarily and economically at a cost which it would be impossible to estimate at a time when the United States has heavy commitments throughout the world in connection with foreign aid programs and would not, in the light of appraisals of the situation submitted by the Embassy and consular offices in China over a period of several months, achieve its avowed objectives."

In another inquiry on October 23, the Ambassador suggested a number of possible alternatives and requested instructions:

"(A) Will we continue to recognize and support the Nationalist Government should they be forced to move elsewhere in China because of continuing military reverses?

"(B) Would we advise the retirement of the Generalissimo in favor of Li Tsung-jen or some other national political leader with better prospects of forming a republican non-Communist government and of more effectively prosecuting the war against the Communist rebels?

"(C) Would we approve the retirement of the Generalissimo in favor of some Chinese leader who could bring an end to the civil war on the best possible terms for the Nationalist forces and the non-Communist political parties?

"(D) In the latter course would we recognize and support a coalition government resulting from termination of hostilities and involving cooperation with the Communists for a united China? or,

"(E) Would we give *de facto* recognition to such governments, the while withholding any Eca or other support?

"I appreciate the difficulties which these seemingly hypothetical questions pose for you and your advisers. However in the acute crisis which I foresee for the Generalissimo and his government I feel that I must have the benefit of your most recent thinking on the above specific points or in more general terms if you prefer in order adequately to represent the views of the United States in this critical phase of our relations with China."

To this, the Secretary replied as follows:

"With respect to the hypothetical questions raised by you on October 23, the United States Government cannot place itself in a position of advising the retirement of the Generalissimo or the appointment of any other Chinese as head of the Chinese Government. To offer such advice is to accept responsibility for developments arising from the acceptance thereof and inferentially to commit the United States Government to support the succeeding regime regardless of United States interests. The difficulty of our position in the event the Gen-

eralissimo and his Government raise such questions is appreciated but it is not in the national interest to vouchsafe cut and dried answers to these oversimplified questions. . . . What can be said in answer to your questions is that the United States Government will certainly continue to support the National Government as long as it remains an important factor on the Chinese scene. What course we would adopt should it move from Nanking, collapse, disappear or merge in a coalition with the Communists would have to be decided at the time in the light of United States interests and the then existing situation.

"As stated in my instruction of August 13, it is not likely that the situation will make it possible for us at this juncture to formulate any rigid plans for our future policy in China. Developments in China are obviously entering into a period of extreme flux and confusion in which it will be impossible with surety to perceive clearly far in advance the pattern of things to come and in which this Government plainly must preserve maximum freedom of action."

In the development of his thinking on the problem facing the United States, the Ambassador on October 28 observed to the Department that:

"What we really object to in Communism is not its admittedly socialized reforms but its intolerance, its insidious reliance on fifth column and similar secretive methods, its ruthless suppression of all thought or action that does not conform, its denial of individual human rights, its unscrupulous reliance on lying propaganda and any other immoral means to attain its ends, its fanatical dogmatism including its belief in the necessity for violent revolution. All these evils plus the fact that policy is directed from Moscow, apply to Chinese Communism as truly as elsewhere. Our problem is how to retard or expose or neutralize their influence in China.

"Evil in Communism is moral or political rather than military. Predominance of the latter aspect in China is largely a historical accident. Even if we had been able to assist the Chiang Government by military means to clear an area of militant communism—which is all we could have hoped to do at best—we would still have been obliged to assist in educational and other processes by which the non-Communist section would be able to demonstrate superiority of genuine democracy. Otherwise, military gains would have proved self-defeating."

#### CHINESE REQUESTS FOR FURTHER MILITARY ASSISTANCE

During November, at the Paris session of the General Assembly of the United Nations, Dr. T. F. Tsiang, then head of the Chinese Dele-



gation, approached Secretary of State Marshall on behalf of the Chinese Foreign Minister to inquire regarding the possibility of the appointment of American Army officers to actual command of Chinese Army units under the guise of advisers and the appointment of an officer of high rank to head a special mission. In the reply given to this request attention was called to the inherent difficulties involved in an attempt on the part of a newly appointed foreign official to advise the Chinese Government regarding its courses of action even if such an official were completely conversant with all the numerous difficulties of the situation and the even greater difficulties for a foreign official not familiar with China. Dr. Tsiang also inquired as to the possibility of expediting the deliveries of military matériel, and was assured that all possible was being and would be done. In reply to his inquiry regarding the desirability of an appeal to the United Nations, he was informed that this was a matter for decision by the Chinese themselves.<sup>48</sup>

The Generalissimo then addressed a letter to President Truman,<sup>49</sup> in which he asked for increased aid on the grounds that China was in danger of being lost to the cause of democracy. He said that the most fundamental factor in the general deterioration of the military situation was the nonobservance by the Soviet Union of the Sino-Soviet Treaty of Friendship and Alliance, which, "as Your Excellency will doubtless recall, the Chinese Government signed as a result of well-intentioned advice from the United States." He also asked for a high-ranking military officer as adviser, and a firm statement of American policy in support of the cause for which his Government was fighting.

The reply of the President was delivered on November 13.<sup>50</sup> It stated that all possible was being done to expedite the shipment of supplies and repeated what Secretary Marshall had told Dr. Tsiang regarding an adviser. The President called attention, however, to the fact that Major General Barr, Director of the Joint United States Military Advisory Group in China, was conversant with the current situation and that his advice had always been available to the Generalissimo. The President adverted to his statement of March 11, 1948, which, he said, made the position of the United States abundantly clear. He concluded that it was with the hope of supporting the cause of peace and democracy throughout the world that the United States had extended assistance to the Chinese Government and that the United States Government would continue to exert every effort to expedite the implementation of the program of aid for China.

<sup>48</sup> See annex 162 (a) and (b).

<sup>49</sup> See annex 163.

<sup>50</sup> See annex 164.

The estimate of the military situation furnished the Department by the Embassy at Nanking on November 6 made it impossible to expect that the appointment of a high-ranking United States military officer could cause any change in the situation:

"We gathered together senior military personnel JUSMAG and Service Attachés, who, after discussing military situation, were unanimous that short of actual employment of United States troops no amount of military assistance could save the present situation in view of its advanced stage of deterioration. Agreeing that employment of United States troops was impossible, it was the conclusion of the group that there was no military step China or the United States could take in sufficient time to retrieve the military situation."

From then until the end of the year high officials of the Chinese Government approached the Ambassador in varying degrees of pessimism, asking his advice and assistance. To all such approaches he expressed assurances of continuing American sympathy but made it clear that the American Government could not assume responsibility for decisions which properly lay with the Chinese Government.<sup>51</sup>

It was against this background that a new cabinet was formed in December 1948 with Dr. Sun Fo as the new President of the Executive Yuan or Prime Minister.<sup>52</sup>

## VIII. CHINESE DEVELOPMENTS IN 1949

### PRESIDENT CHIANG'S NEW YEAR'S MESSAGE

At the beginning of the year there were rumors that the Generalissimo would withdraw from the presidency and turn over control to the Vice President, General Li Tsung-jen. Rumors of his withdrawal were strengthened by his New Year's message to the nation<sup>53</sup> in which he indicated that the National Government would be willing to enter into peace negotiations with the Chinese Communists and that, if peace could be secured, he would not be concerned about his own position.

The Ambassador on January 3 commented as follows on this New Year's message:

"My first reaction was favorable. It was dignified and conciliatory. There was less abuse of the Communists than usual. In assuming

<sup>51</sup> See annexes 165 (a)-(h).

<sup>52</sup> See annex 166 for a series of chronicle round-up reports written by the Embassy in Nanking during 1948. These informal reports give a summary account of the over-all situation during the year.

<sup>53</sup> See annex 167.



blame for the national distress the Generalissimo was in the best tradition and in indicating his readiness either to continue or retire he was in accord with new democratic concepts.

"But on further thought the fatal flaws reveal themselves. It was too much a literary composition in the grand manner. It has the gracious tone of a powerful ruler dealing with troublesome rebels. In this it ignored unpleasant realities: the virtual collapse of military capacity, the failure of the latest monetary measures, the almost universal desire for peace and the impossibility of it as long as he stays in office.

"The other flaw was more serious. In a sense he has made concessions but in doing so has not gone far enough. His stubborn pride, his anger over the Communist war criminal list which he heads, the influence of . . . irreconcilables led him to retract his forthright decision made earlier in the week to resign and leave the Vice President free to adopt any policy that might seem to him to be for national welfare. Yet the pressure was too strong and his original intention too definite for him to avoid any reference to his own willingness to retire. This will destroy what ever is left of will to fight among his troops. There was at once division of opinion among military officers. The position taken seems to be the result of compromise among the various groups in the Kuomintang. Each of the Generalissimo's five conditions may be taken to represent emphasis of one of these factions. In attempting to reconcile them all he may further intensify internal disagreements. Communist reaction can be easily surmised. Their attitude will doubtless be uncompromising. Flushed with success and with victory in sight they want to complete the task of eradicating once and for all the evil influence of the Kuomintang, precisely as Chen Li-fu and his supporters have consistently argued regarding the Communists. Whether by this the Communists mean only the present leadership and structural organization of the Kuomintang can only be learned from their future behavior. But it will seem that the Kuomintang at any rate must succumb to the dynamic purpose of the Communists and because of its own shortcomings. Once the Communists have eliminated this source of opposition they might propose some inclusive form of coalition and attempt a political settlement with political resistance groups in the outlying provinces.

"In any event a movement was started on New Year's day which would seem to be the beginning of the end of military conflict on a national scale."

## PRIME MINISTER SUN FO'S NEW YEAR'S MESSAGE

On New Year's Day also Dr. Sun Fo, the Prime Minister, broadcast a message to the Chinese people repeating the Generalissimo's statement regarding the desire of the Chinese Government for peace. Of some interest was his reference to the period of peace negotiations in 1946:

"You will recall that, shortly after V-J Day, a political consultative conference was called, which was attended by representatives of all political parties and leading independents. The Government decided to call this conference because it was generally realized that the country and the people needed recuperation and peace so that rehabilitation work could be started. After three weeks of concerted efforts, and thanks to the good offices of General George Marshall as President Truman's Special Envoy to China, a program for the settlement of all disputes was worked out.

"Had these measures been carried out at that time, all of us would have seen more prosperity and happiness in our midst. Unfortunately, all the parties concerned could not completely abandon their own selfish ends, and the people in general did not exert sufficient influence in promoting this peace movement."

## CHINESE REQUEST FOR FOREIGN MEDIATION

On January 8, 1949, the Chinese Foreign Minister requested the American, British, French and Soviet Governments to act as intermediaries in the initiation of negotiations with the Chinese Communist Party with a view to obtaining a restoration of peace.<sup>54</sup>

On January 12 the United States replied to the Chinese request in the following *aide-mémoire*:

"The United States Government has received and has given careful consideration to the aide-memoire delivered by the Chinese Minister for Foreign Affairs to the United States Ambassador at Nanking on January 8, 1949.

"It is noted in the aide-memoire that the Chinese Government is most anxious that the internal situation in China should not in any way become an impediment to the progress of world peace. It is also noted that the Chinese Government took steps immediately following the Japanese surrender to initiate and carry on peace negotiations with the Chinese Communist Party.

"It will be recalled that these negotiations in September and October 1945 resulted in agreement for the convening of a Political Consultative Conference, to be composed of representatives of all political

<sup>54</sup> For text of *aide-mémoire* of Jan. 8, 1949, see annex 168.



parties as well as non-party Chinese leaders, for the purpose of forming a constitutional government in which all Chinese parties and groups would be represented. It will also be recalled that subsequent to these negotiations clashes between the armed forces of the Chinese Government and of the Chinese Communist Party became increasingly widespread. It was at this juncture in December 1945 that the United States Government, motivated by the same anxiety as that expressed in the Chinese Government's aide-memoire under acknowledgment with respect to the danger to world peace from the internal situation in China and desirous of doing everything within its power to assist in bringing peace to China, offered its good offices in the hope that a peaceful settlement of their differences could be achieved by the Chinese themselves along the lines of the agreement reached in September and October. In furtherance of that Chinese agreement and with the consent of the Chinese Government and the Chinese Communist Party, General Marshall shortly after his arrival in China on December 21, exerted his good offices in assisting the Chinese Government and the Chinese Communist Party to reach an agreement for a cessation of hostilities with the hope that discussions by the Chinese of their differences could be conducted in an atmosphere of peace.

"Following the convening of the Political Consultative Conference and its approval of resolutions providing for the settlement of political differences and the establishment of a constitutional government to include all parties and groups in China, General Marshall again exerted his good offices in connection with the agreement reached for the reorganization of all Chinese armed forces and their amalgamation into a national army responsible to a civilian government.

"The negotiations between the Chinese Government and the Chinese Communist Party subsequently broke down and the various agreements were not implemented. The United States Government, therefore, after having made every effort to assist the Chinese in bringing peace to China through implementation of the fundamental political agreements arising out of the Chinese Government's negotiations with the Chinese Communist Party immediately after the Japanese surrender, considered that it had no alternative to withdrawal from its position as an intermediary.

"In the light of the foregoing, it is not believed that any useful purpose would be served by the United States Government's attempting, in accordance with the Chinese Government's suggestion, to act as an intermediary in the present situation."

The Ambassador was instructed that if he were asked any questions he should limit his reply to the confines set by the President's message to Congress of February 18, 1948, and the statement by the Secretary

of State to the House Foreign Affairs Committee on February 20.<sup>55</sup> He was also to assure the Foreign Minister of the sympathetic interest and genuine friendship of the American people for the people of China. On the same day, the Chinese Ambassador in Washington called on the Acting Secretary of State to ascertain if, in the event the Chinese request were refused, the United States would consider issuing a statement indicating that the Chinese Government sincerely desired a peaceful settlement. He was informed that such action would be inappropriate. France, Great Britain and the Soviet Union also refused the Chinese request for mediation.

#### THE RETIREMENT OF THE GENERALISSIMO

By the end of 1948 the Chinese Communist forces were in strength in the Pengpu area north of Nanking and the best of the Nationalist forces had been withdrawn through Nanking south of the Yangtze River. The grave military position of the National Government was reflected in the estimate submitted in December by General Barr, Director of the JUSMAG in China, that only a policy of unlimited United States aid, including the immediate employment of the United States armed forces, which he said he did not recommend, would enable the National Government to maintain a foothold in South China against a determined Chinese Communist advance. By the latter part of January the Chinese Communist forces had moved to the north bank of the Yangtze in the Nanking-Shanghai area and were in position to attempt a crossing of the river.

On January 21 the Generalissimo issued a statement announcing his decision to retire and left Nanking for Fenghua, his birthplace. He declared:

"With the hope that the hostilities may be brought to an end and the people's sufferings relieved, I have decided to retire. As from January 21st, Vice-President Li Tsung-jen will exercise the duties and powers of the President in accordance with Article 49 of the constitution which provides that 'in the event the President is for any reason unable to perform his functions, his duties and powers shall be exercised by the Vice President.'"

The Generalissimo's action was, in effect, recognition of the overwhelming desire of the Chinese people for peace. As he stated: "Since I issued my New Year message urging the restoration of peace, the entire nation with one accord has echoed its unreserved support."

On January 24, 1949, the Chinese Ambassador at Washington offi-

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<sup>55</sup> See pp. 379-380.



cially notified the Department of State of the Generalissimo's decision and of the assumption of office by Vice President Li Tsung-jen.

#### THE POSITION AND POLICIES OF ACTING PRESIDENT LI

On January 23 a representative of the Acting President called on Ambassador Stuart to request a public statement of support from the United States. This representative said that General Li had been in touch with the Soviet Embassy and had worked out a tentative three-point draft agreement between China and the Soviet Union which the Soviet Ambassador had taken with him to Moscow a few days earlier. The three points were: (1) strict Chinese neutrality in any future international conflict; (2) the elimination of American influence to as great an extent as possible in China; (3) the establishment of a basis of real cooperation between China and Russia. General Li had agreed to these three points in principle and felt that his hand would be strengthened in negotiating on them if he had a statement of American support. The Department at once replied that it considered it "incredible that Li Tsung-jen should seek a United States statement indicating support for the purpose of strengthening his position while at the same time arranging a tentative agreement with Russia calling for elimination of American influence from China." The Ambassador was instructed to make these views known to General Li.

In the meantime, the Acting President had directed General Chang Chun, General Chang Chih-chung and Mr. Chen Li-fu to seek a direct approach to the Chinese Communist Party. The Acting President also summoned an unofficial peace mission to fly to Peiping to arrange for the subsequent reception of an official peace mission. With his encouragement an unofficial Shanghai peace delegation proceeded to Peiping to discuss peace arrangements with the Chinese Communists. The Chinese Communist Party continued to hold to its publicly announced eight-point peace terms as the basis of a settlement:

1. Strict punishment of war criminals.
2. Abolition of the constitution.
3. Abolition of the Kuomintang legal system.
4. Reorganization of Nationalist troops according to democratic principles.
5. Confiscation of "bureaucratic" capital.
6. Reformation of the land system.
7. Abolition of "treasonous treaties."
8. Convocation of a Political Consultative Conference with non-participation of "reactionary elements," establishment of democratic coalition government, taking over all authority of the "Kuomintang reactionary government" and all its strata.

These terms were equivalent to unconditional surrender, but the Government's condition was so serious that it felt compelled to make an effort toward negotiation with a view to obtaining modification.

On February 5, pursuant to a decision of the Executive Yuan, the Chinese Government moved most of its offices to Canton, although the Acting President remained in Nanking and requested the return to that city of the heads of certain ministries. The American Embassy established an office at Canton headed by the Minister-Counselor to maintain contact with those Chinese Government agencies which had moved to that city.

After Acting President Li had assumed office, several high-ranking Chinese Government officials, erstwhile strong supporters of the Generalissimo, approached the Ambassador to ask for assistance in dissuading the Generalissimo from interfering in governmental and military affairs. They considered that the Generalissimo was hampering the Acting President's peace negotiations and various reform measures, as well as the formulation of measures for the defense of the Yangtze River in the event of the breakdown of efforts to reach a peaceful settlement with the Chinese Communists. The Ambassador reported these overtures to the Department with the statement that he was, of course, taking no action with respect to these pleas.

On February 9 the Minister-Counselor at Canton reported as follows:

"Chen Tai-chu has again approached me with respect to encouragement of potential resistance elements when peace talks have failed. He said it would be most helpful if I could meet informally with various groups in Canton who were laboring under the impression that we are disinterested in continued resistance and perfectly prepared to recognize a Communist regime and talk to those groups along the line of my conversations with him. If U. S. Government could not make public statements at this stage, my remarks, which would inevitably reach the press and be attributed to me, would be helpful. I told him I would have to think the matter over.

"If the arguments I used in previous conversation with Chen and as used in my conversation with Chen Li-fu shortly before leaving Nanking and reported to the Department conform with thinking in Washington, such informal meetings as those suggested might prove beneficial to our interests. There are undoubtedly many liberal Chinese who desperately do not want to come under a Communist regime, but who see no alternative unless assistance is to be forthcoming from the U. S. I have insisted that although I could, of course, not commit the Congress, I found it difficult to believe further assistance would be forthcoming until there was some tangible resistance move-



ment giving signs of effectiveness and to which help from the U. S. might bring success. Chen Tai-chu believes the discussions he has suggested might encourage potential resistance elements sufficiently that active measures would be undertaken to find a leader or leaders capable of reviving the will to resistance in free China.

"I should appreciate urgently the Department's instructions."

The Department replied as follows:

"Approach described in your message is similar in nature to other feelers during recent weeks and appear to be part and parcel of political jockeying for advantage by various groups. In the light of General Barr's estimate, with which you are familiar, that in the absence of unlimited U. S. aid, including the immediate use of U. S. armed forces, the Chinese Government cannot maintain a foothold in south China against a determined Communist advance, it seems unrealistic to believe that either a public U. S. Government statement or even statements attributed to you could serve any useful purpose. If resistance to the Communist advance is to be effective, it must obviously be based upon genuine Chinese effort and not upon the issuance of statements from outside China. In any event, you will recall the President's reply to the Generalissimo's message which dealt with this question.

"In view of the continued implementation of the China Aid Act, it is difficult to understand the impression conveyed to you that the U. S. is disinterested in continued resistance and is perfectly prepared to recognize a Communist regime."

As the struggle continued between the Acting President and his followers on the one hand and the Generalissimo and his supporters, together with the Canton faction headed by the Prime Minister, on the other hand, the Ambassador reported on February 20, 1949, as follows:

"The Department may care to take measures publicly or otherwise for refuting the mistaken impressions created by press accounts of forthcoming large scale American military aid. These reports, which were prominently published in vernacular and English language press in China, have the effect of inciting the Generalissimo and his irreconcilables to re-take the leadership now in a renewed resistance movement. He is already being influenced, I hear, by arguments of his indispensability from a small group of die-hard supporters whose motives are not entirely disinterested.

"Meanwhile the Generalissimo is interfering in military affairs, thus hampering rather than helping the Yangtze defense. Li Tsung-jen may eventually be sufficiently thwarted by these factors to feel forced to retire south, prematurely abandoning peace efforts. The only hope

for public support for renewed resistance against the Communists lies in convincing the Chinese people that the Chinese Communist Party does not desire peace on any tolerable basis. Li is presently endeavoring to put this to thoroughgoing test. The U. S. can, I feel, help most at this stage by avoidance of public debate and objective appraisal of the coming developments. The tone of the Secretary's recent statements on China have been very useful in this regard."

The Department took no action on the Ambassador's suggestion that a statement be issued.

The Ambassador's report of February 23 served to highlight the difficulties with which the Acting President was confronted:

"In the struggle for power between Li Tsung-jen and the 'Canton' faction headed by Sun Fo, Li is in a fundamentally weak position because he does not control the larger portion of the Army, lacks financial resources and does not command the allegiance of that considerable portion of the Kuomintang bureaucracy controlled by the Generalissimo and the CC politicians. This fundamental weakness has been frankly acknowledged, and probably somewhat exaggerated, by Pai's Headquarters to the American Consulate General at Hankow appealing for U. S. aid.

"However, he has made some preparations recently in mobilizing popular support for his peace program. The most important single evidence of this is the decision of the Legislative Yuan to meet in Nanking rather than in Canton. This is, of course, in direct defiance of the Premier's publicly expressed wishes. At the Yuan Session, Sun Fo is certain to be violently denounced, both for his sponsorship of the Government move south and for speculations he is alleged to have committed. A significant indication of the feeling of many legislators was the press report that the legislators resident at Shanghai had passed a resolution accusing Sun Fo of 'deserting' the Acting President and calling for the return of the Executive Yuan to Nanking.

"Further tangible demonstrations that Li is making progress are the meeting of the Control Yuan here and their resolution to support him, the announcement that the Executive Yuan joint office will soon open at Nanking, and the arrival of the Ho Ying-chin in the capital. Li also has the backing of important newspapers in Shanghai and Nanking, which praise his twin program of peace and reform while condemning the Kuomintang for ineptitude and corruption and censuring the Sun Fo cabinet for 'running away'. Insofar as can be determined, support for Li is growing among banking and business circles in Shanghai and Nanking and among that large but inarticulate section



of the population who disregard the larger issues and are principally interested in keeping the destruction of war from their homes.

"Li's present position is similar in some ways to that he occupied while campaigning for Vice-President. At that time he became the symbol of revolt against arbitrary dictation by the Generalissimo and the party and succeeded in uniting behind him all the dissident (and often mutually incompatible) factions for the purpose of his election. He has again become a symbol, this time a symbol of the yearning for peace that pervades this war-weary country. So long as his peace efforts make perceptible progress, or even succeed in delaying (or seeming to delay) the Communist assault on the Yangtze, he should be able to maintain and utilize for his support this mobilized public opinion.

"Li is aware of the basic weakness of his position, but is astutely capitalizing on the support of those who see him as the chief hope for peace, in order either to heal the breach between himself and the Canton group, or at least win over to his side as many as possible of the powerful leaders in the Kuomintang. He is also endeavoring to bolster his position in concrete ways by making overtures for U. S. aid and planning economic and political reform. The extent to which he succeeds in these efforts will determine his strength either as negotiator with the Communists or subsequently as the leader of resistance should the Communists renew the attack."

On February 21 the Ambassador reported that the Acting President had expressed to him a desire to have an American adviser for the Ministry of Finance and also an American expert on public administration to help reduce and reorganize the whole structure of the Government. In view of the state of disorganization of the Chinese Government and the lack of unity between the rival groups, the Department of State instructed the Ambassador to inform the Acting President that the appropriate channel for the employment of American advisers would be through the Chinese Embassy at Washington, particularly since the presence in the United States of Pei Tsu-yi, formerly Governor of the Central Bank, as Chief of the Chinese Technical Mission, would offer the Embassy an excellent opportunity to locate personnel with the necessary qualifications and experience. The Ambassador was also instructed to state that the Department would be pleased to afford appropriate assistance and facilities as requested by the Chinese authorities.

On February 28 Acting President Li Tsung-jen forwarded the following message to President Truman:

"Since assuming office as Acting President, I have had in mind a message to you expressing the hope that the historic friendship

between our two countries may be maintained, and assuring you of my appreciation for all that has been done for China under your administration."

The President replied as follows:

"I wish to express my sincere appreciation of your kind message of February 28 and to assure you of my very real desire to see a continuation of the traditional and close ties of friendship which have existed between the peoples and Governments of our two countries."

The unofficial Shanghai peace delegation returned from Peiping and issued a statement sufficiently optimistic to give encouragement to the peace-hungry public and to strengthen the hands of those advocating an all-out effort to obtain peace. The Acting President succeeded in having the Legislative Yuan hold its session in Nanking at the end of February and, following his trip to Canton, the Prime Minister and the Vice President of the Executive Yuan, who was also the Foreign Minister, returned to Nanking. All this signified a temporary political victory for the Acting President and a concerted effort to present a united front on the part of the Government to the nation and the Chinese Communists. On March 3 it was announced that the National Government had named a ten-man peace preparation committee headed by Dr. Sun Fo.

On March 6 the Ambassador reported a conversation with the Chinese Foreign Minister as follows:

"He said that Lapham<sup>55a</sup> had not been responsive to the Chinese request for a silver loan. I pointed out that ECA had no authority in such matters and added that it was improbable that the Congress would feel itself in a position to make a loan to China in the light of current circumstances.

"Wu T'ieh-chen then asked what were our anxieties *re* China and the Chinese Government. I replied that these were two: (1) disunity within the Government and (2) the lack of public support for the Government. In response to his question if I referred to differences between Nanking and the Canton group, I replied that this interpretation was inevitable but that there was also considerable confusion with respect to relations between the retired President and the Acting President, that the American public did not understand what the actual relationship between these two was. After exhausting the usual 'official' explanations, the Foreign Minister frankly admitted that it is difficult for a man who had held power so long suddenly

<sup>55a</sup> Roger Lapham, Chief of the ECA China Mission.



to become inactive. He continued that there had been some very serious discussions recently and that the Government leaders were determined to start a new system centering authority in the Cabinet which would from now on be responsible with the President being relegated to his 'constitutional' status. The Generalissimo would thus become an 'elder statesman' consulted on occasion but restrained from giving orders. To make the move less pointed it is proposed that several other of the older Kuomintang leaders would be similarly treated. I expressed hope that there would be some success in putting these measures into effect."

The second week in March was marked by a cabinet crisis which resulted in the resignation of Dr. Sun Fo as Prime Minister. The Legislative Yuan's resolution calling for meetings of the Cabinet at Nanking during the period of peace efforts reduced Canton, although it was still nominally the seat of the National Government, to a position of only administrative importance on the national scene. These developments strengthened the political position of the Acting President and his efforts to unify the Government forces around himself. But the power of the Generalissimo continued to be felt as was indicated by the Acting President's sending of an emissary to Fenghua to see the Generalissimo, by the failure of certain Kuomintang leaders to accept the Acting President's invitation to come to Nanking and by the arrest, under orders from one of the Generalissimo's loyal military commanders, of a Chinese newspaper editor at Nanking for publication of an editorial criticizing the Generalissimo's interference in governmental affairs.

## IX. RENEWED CONSIDERATION OF ADDITIONAL AMERICAN AID

### RECOMMENDATION FROM TIENTSIN

On March 12, 1949, the Consul General at Tientsin forwarded to the Department the text of a memorandum from the American Chamber of Commerce at that city strongly opposing further aid to the Chinese Government. On March 15 the Consul General commented as follows on this memorandum:

"Americans in Tientsin who had the unhappy experience two months ago of witnessing the capture of Tientsin by Communist armies equipped almost entirely with American arms and other military equipment handed over practically without fighting by Nationalist armies in Manchuria, have expressed astonishment at radio reports from the U. S. during the last two or three days to the effect that a

bill may be presented to the Congress to extend further military and economic aid to the Nationalist Government in the sum of a billion and a half dollars.

"Americans in Tientsin feel the only result of further U. S. aid to a Government which has proved so ineffective that most of our previous aid has passed to the Communists will be to further strengthen the Communists. They feel that the apparent retirement of the Generalissimo has had little effect on the character of the Nationalist Government, particularly in view of the reported selection as new Premier of General Ho Ying-chin, considered the archetype of the Chinese who have brought the National Government to its present sorry state. They feel that our global policy of opposition to Communism should not oblige us to support a hopelessly inefficient and corrupt government which has lost the support of its people. They believe that at this juncture it would be useless to extend further aid to a government which is so far gone. They feel that the present situation must be solved by the Chinese and that for the time being we should adopt a hands-off policy."

#### COMMENTS BY THE EMBASSY OFFICE AT CANTON

The Embassy Office at Canton on March 22 commented as follows on the question of further aid to China which was then being considered by the Department of State.

"As I analyze the situation at the moment, we may expect the Communists to continue the deployment of troops on the north bank of the Yangtze and when they are ready to attempt the crossing we may anticipate an announcement of their willingness to negotiate peace on the terms they will stipulate and which may be expected to be a reiteration of Mao Tse-tung's eight points. Their announced willingness to negotiate will likely be in the form of an ultimatum threatening to cross the Yangtze if the terms are not accepted within the time limit. It is unlikely that the terms will be acceptable to the Kuomintang leaders although they will appear reasonable to the war-weary Chinese masses.

"Even though rumors of Communist morale difficulties may have foundation, it may be anticipated that the Communist troops will fight. On the contrary, however, there appears little likelihood that the Nationalist troops can be reinspired with the will to resist. Chang Chun may, as he claims, be able to rally forces in the southwest to defend themselves, but it will unlikely be defense of a character long to delay the Communists, once they have determined on an advance. There is even some thought that with the breakdown of peace negotiations, the process of regional fragmentation will be accelerated,



with each area seeking to fend for itself, thus making more easy the Communist task. The dissident Kwangtung Legislative Yuan members remaining at Canton demanding defense of the constitution' are an indication of this trend.

"As I see it, when the Communists have deployed their troops and issued their ultimatum and had it rejected, they may be expected to cross the Yangtze, meeting little resistance and occupying urban centers of the Yangtze Valley. They will then have the capability of continuing their advance in the southwest or the south, overcoming without too much difficulty any regional resistance they may encounter. Whether they will proceed to the task immediately or delay for months or years rests solely for their determination.

"In a previous telegram I suggested the possibility that Li Tsung-jen might supply effective leadership. I am now less inclined to that view. He has increased tremendously in stature; has greatly increased his following, yet the centripetal forces in free China remain too strong for him to overcome. The deep-seated Chinese characteristic of family solidarity is too strong and we are witnessing a frantic search by each individual to save himself and his family first, then maybe his province, with little if any thought to the principles involved, or the nation. Also, if, as alleged, the cruiser *Chungking* has been put out of action by the Chinese Air Force, we may still see the Generalissimo re-emerge in his Foochow-Amoy-Taiwan triangle.

"I have been chided of late by many Chinese officials, from the Vice Premier and the Foreign Minister down, for what they term our 'wait and see' policy in respect to China. . . . I have put forward the arguments outlined in the Department's letter to Senator Connally<sup>56</sup> and have stressed the need for the Chinese to demonstrate the possibility of effective resistance to Communist expansion before expecting the U. S. to make further investments in National China. In each case I have been given the impression of utter inability of China to cope unaided with the situation. In other words, the sole means of turning the tide in China would, as the Department suggests, require the use of 'large U. S. forces in actual combat, contrary to our traditional policy and our national interests.'"

#### DIFFICULTIES CONFRONTING ACTING PRESIDENT LI

Following the resignation of Dr. Sun Fo, General Ho Ying-chin was named Prime Minister, or President of the Executive Yuan. This appointment gave the Acting President a Prime Minister of his own choosing and served to strengthen Government unity. A new

<sup>56</sup> For text of letter from Secretary Acheson to Senator Tom Connally on March 15, see annex 186.

Cabinet was quickly formed and steps were taken to appoint National Government peace delegates and to propose the early opening of peace discussions with the Chinese Communists.

The increasingly serious position of the Chinese Government was reflected in military developments which included the fall of Tientsin on January 15, the final occupation of Peiping on February 3, and the subsequent National Government reverses in the Hsuehchow area, thus placing the Chinese Communists forces on the north bank of the Yangtze where they represented a direct threat to Nanking and Shanghai. On March 24 the Acting President presented a draft peace formula and the names of the Government's official peace delegates to the Executive Yuan for approval. On March 26 the Chinese Communist Party announced the names of its delegates for the peace negotiations, and Peiping was named as the locale of the negotiations. The National Government peace delegates arrived at Peiping on April 2, and after some informal discussion were presented by the Chinese Communist Party with an ultimatum setting a deadline of April 12 for the acceptance of the Chinese Communist conditions and stating that whether in war or in peace the Communist forces would cross the Yangtze River. This ultimatum was subsequently withdrawn as an exchange of messages occurred between the Acting President and Mao Tse-tung.

On April 6 the Ambassador reported as follows :

"I referred to the analogous problem of munitions from the U. S. with reference to a Chinese Government request for a grant of United States silver. The Acting President and the Premier had suggested that ships bringing the last consignments be diverted to Hong Kong or Canton for the equipment of Pai Chung-hsi and Chang Fa-kuei. I pointed out that there were technical difficulties in such procedures, and that in any event it seemed unnecessary, since there were ample stores of munitions in warehouses at Keelung. The problem in both cases was, of course, that the Generalissimo controlled the greater share of the national treasury reportedly stored in Taiwan and that through his appointed Governor of Taiwan he also controlled the warehouses full of munitions there. I added that from the record of the past three years, there was slight hope of effective resistance to the Communists under this leadership. I continued that if the Acting President and the Premier had responsibilities for government, they should also have the authority to utilize all the available government resources. I was aware of the difficulties and the embarrassment for them and of the danger to the peace negotiations by forcing the issue with the Generalissimo now. Nonetheless, this was a problem that sooner or later would have to be faced. It was, I added, a Chinese problem



which they should not look to us to solve for them. The emissary understood that my remarks were only for the ears of the President and the Premier and I believe he also understood their import.”<sup>55b</sup>

The following report from the Consul General at Shanghai, on April 4, serves to point up some of the difficulties confronting the Acting President:

“Despite the steady increase of Li’s prestige and popularity, his actual power should not be overestimated. There is little indication that he has been able to infuse any new fighting spirit into the Nationalist armies, or indeed that he has been able to introduce any substantial reforms which might eventually lead to that result. In the military field his principal contribution has probably been to decrease the anxiety of the Communist rank and file to fight and thereby relatively to increase the strength of the Nationalists. However, until we have positive indications whether or not there is any real fight left in the Nationalists, it cannot be said that any great improvement in the military position has taken place.

“A second weakness which Li has had to face is his limited power to enforce his orders and to hold in check centrifugal forces among Nationalist leaders. The Generalissimo, though outwardly cooperating, is maintaining in effect independent political and military authority. The Kuomintang leaders in Canton are playing their own game, as are other provincial leaders. Though Li has accomplished miracles in asserting his authority in ever widening sectors, he still does not have unified authority over Nationalist China. It is important both to appreciate this and to realize how far he has come since he was given his present responsibility with practically none of the Nationalist assets—political, military and economic—to carry them out.”

On April 15, the Ambassador reported as follows:

“The Acting President has sent another appeal to me for assistance. He asked if it would not be possible for the U.S. Government to make some kind of statement deterring the Communists from crossing the Yangtze. What he has in mind apparently is a statement by the President or the Secretary to the effect that a Communist crossing of the Yangtze would be considered a threat to the security of the U. S. and that should such a military operation be undertaken the U. S. would have to give consideration to the appropriate measures to be taken. A statement in a press conference in reply to a pertinent question might prove the most suitable method or some interested

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<sup>55b</sup> With reference to a Chinese request for silver aid see chapter VIII which contains a more complete account of United States economic and financial aid during this period.

Senator such as Connally might give his views on the implications of the Communists coming south of the river.

"I have every sympathy with the Acting President in his efforts to contain the Communists north of the Yangtze. His appeal is further evidence of the desperate position of the Nationalist Government vis-a-vis the Communists and of the small confidence he places in the peace negotiations at Peiping. Any statement of sympathy from the U. S. at this time would encourage him enormously. I am not, however, able to support Li's request unless the U.S. Government is prepared to back up such a statement by some kind of effective assistance. Since the Acting President's request requires a reply, I would be grateful for the Department's instructions."

## X. THE WITHDRAWAL OF THE GOVERNMENT FROM NANKING

### THE COMMUNIST DEMANDS OF APRIL 15, 1949

On April 15 the National Government at Nanking was informed of the Chinese Communist Party's terms, according to which the Government would be given until April 20 to accept or reject the draft agreement presented by the Chinese Communists. The Ambassador was informed by Chinese Government officials that the draft had been prepared by the Chinese Communist Party and had been given to the Nationalist peace delegation at Peiping in the early stages of the negotiations. After days of discussions the Nationalist delegates succeeded in achieving slight drafting changes but nothing of substance and they emphasized to the Government at Nanking that this draft, which was based in general upon the Chinese Communists' eight-point proposals originally made public in January, and was tantamount to unconditional surrender, would have to be accepted without change. The Communist Party indicated that if its terms were not accepted at the time of the expiration of the deadline, it would break off negotiations. The Acting President explained the foregoing circumstances to the Ambassador and some of his foreign colleagues on April 17. On the following day the Ambassador reported as follows:

"General Pai Chung-hsi called on me this morning to report that the Acting President, in view of the latest Communist demands, will propose to the Generalissimo that, peace being impossible, he should either resume full responsibilities of the presidency or leave China, turning over all authority and national resources to Li Tsung-jen. By such steps the Acting President will seek to force the General-



issimo to end by a clear-cut decision the present state of confusion which the latter, himself, has created."

On April 20 the Ambassador further reported as follows:

"The Minister of Education called with an additional message from the Finance Minister who is thoroughly discouraged over the chaotic financial conditions in Nationalist territory and trying to resign. Han Li-wu did not renew Liu's request for immediate financial assistance but did ask what the U. S. attitude would be should the Nationalist forces put up a spirited defense of the Yangtze, prevent the Communists from crossing, and thereby recapture popular support generally for continued resistance to the Communists southward advance. He asked if under these circumstances there would be a possibility of American financial assistance to stabilize the local currency, or a substantial silver loan for payment of the troops defending Nationalist territory. I replied along the lines previously reported, pointing out that a considerable treasure of gold, silver and foreign currency did exist and that it was an internal Chinese problem for the present Government to obtain control of all of it."

#### THE CROSSING OF THE YANGTZE

Prior to the expiration of the deadline of April 20, the National Government requested an extension of time to April 25 to enable it to consider the Chinese Communist Party's draft peace agreement and on April 20 sent a message to the Chinese Communists rejecting the draft peace agreement but requesting a cease-fire order so that further negotiations might be held. In the meantime the Chinese Communists informed the Nationalist peace delegates at Peiping that if the Government's reply to their proposal were negative, or if no reply were received by April 20, the Communists would consider the negotiations ended and would begin the crossing of the Yangtze. At midnight, on April 20, the Chinese Communist forces crossed the Yangtze River at several strategic points, a crossing which was described by the Embassy at Nanking, on April 23, in the following terms:

"The ridiculously easy Communist crossing of the Yangtze was made possible by defections at key points, disagreements in the High Command, and the failure of the Air Force to give effective support."

While these events were occurring, the Minister-Counselor at Canton reported as follows, on April 21:

"Chen Li-fu says that the decision last night at Canton of the Central Executive Committee and that of the Government at Nan-

king to reject the Communist terms were both unanimous. He is sanguine that the bickering between the various elements of the Kuomintang has terminated and that the Party will rally as a unit for renewed resistance. He envisages the complete removal of the Government to Canton, leaving the Commander-in-Chief of the Armed Forces with Headquarters at Nanking. He is confident that the Air Force and the Navy will cooperate with the Ground Forces and that the Yangtze crossing on any important scale can be delayed for months, if not prevented. So far as he is aware, the Generalissimo continues his willingness to send complete support to Li Tsung-jen with no present intention of resuming authority himself.

"With the closing of the ranks of the Kuomintang, Chen is sanguine of effective resistance to the Communist advance, yet desperately wants assurances of further U. S. aid. After reviewing the unhappy results of our past efforts to help China, and our failure largely because China refused to help itself, I cautioned him not to count upon further U.S. aid unless and until the Government had first demonstrated its ability with a broadened basis to rally support in territory it still controls for further and effective resistance on a scale giving promise of the ability eventually to retake the offensive. I mentioned our axiom 'God helps him who helps himself', of which there is a Chinese equivalent, and said that the American people could not be expected to invest any more money in the Kuomintang regime until it gave promise of offering an effective alternative to Communism. Chen tried unsuccessfully to pin me down as to what would be considered effective resistance. Obviously, his back was to the wall and he, like others in his position, is determined upon desperate measures to avoid the almost inevitable Communist domination of all China. Now that those who thought peace possible have been disillusioned, he is sanguine that the Kuomintang, with united ranks, will be able to rally sufficient support to prolong the struggle until the U.S. can be persuaded once again to intervene. Should that time come, he hopes that we will lay our cards frankly on the table and demand a definite *quid pro quo* for anything we give. That is the only way, he said, we could assure the accomplishment of the ends we desire."

On April 21 the Department sent the following message to the Ambassador at Nanking in reply to his report of April 15 conveying an appeal from the Acting President for a statement by the United States Government to deter the Chinese Communists from crossing the Yangtze River:



"The Acting President's request appears to be overlapped by the meeting between him and you and your foreign colleagues on April 17, and to be overtaken by events . . .

"As you are aware, the only Congressional authority presently existing for aiding the Chinese Government is the legislation extending the availability of the residual China Aid Act funds. The Department's views on this subject were set forth in the Secretary of State's letter to Senator Connally, of March 15, *re* the McCarran proposal. For your information, the text of the letter to Senator Connally was not released by the Department which wished to avoid possible adverse effect on the Chinese Government and Li's position in the negotiations with the Communists."

On April 23 the Acting President, the Prime Minister and the remaining officials of the Ministry of National Defense left Nanking for Shanghai, en route to Canton. The Chinese Communist forces were by this time across the Yangtze River in strength and Nationalist Armies deployed for the defense of the river had been ordered to withdraw to the south. Chinese Communist forces occupied Nanking on April 24 and were in a position to move toward Shanghai. In succession, the Communist forces occupied Hankow on May 16-17, Shanghai on May 25, and Tsingtao on June 2.

The general effect of these developments on the National Government's position was described by the Embassy in a report of May 1:

"Despite the desperate plight of the Government and agreement among all leaders of the necessity of continuing resistance to the Communists, the basic conflict of authority between Li and the Generalissimo has not been resolved. The Generalissimo came out with a public statement expressing confidence in final victory, though the war may continue for three years, and pledging support to Li. However, there is no indication he really intends to relinquish power and Li and Pai are increasingly bitter. This struggle probably will continue to hamstring Government resistance."

## XI. FORMOSA

The case of Formosa is a pertinent one in the record of American efforts to encourage reform within the Chinese Government. By the terms of the Cairo Declaration of December 1, 1943, the United States and China declared their intention that Formosa should be restored to China. In September 1945 the administration of the island was taken over from the Japanese by Chinese forces assisted by small

American teams pursuant to the Japanese Instrument of Surrender and General Order No. 1 issued by the Japanese Government at the direction of the Supreme Commander for the Allied Powers, dated September 2, 1945.

China found Formosa in favorable circumstances since Japan had made constructive use of the great natural resources of the island and the living standards of the population were higher than anywhere on the Chinese mainland. It possessed a good industrial complex and was more than self-sufficient in foodstuffs. The native population for 50 years had been under the rule of a foreign invader and therefore welcomed the Chinese forces as liberators. During the Japanese occupation the principal hope of the people had been reunion with the mainland. Instead of utilizing this highly favorable situation to its own advantage the National Government appointed to the governorship General Chen Yi, a long-time associate of the Generalissimo, who some years before had given up the governorship of Fukien under curious circumstances. The new Governor arrived with an imposing retinue who proceeded with great efficiency to exploit Formosa. In addition the local population was ruthlessly excluded from any important role in public life and was made to feel that it was again under the rule of a conqueror.

The economic deterioration of the island and the administration of the mainland officials became so bad that on February 28, 1947, popular resentment erupted into a major rebellion. In the ensuing days the Government put down the revolt in a series of military actions which cost thousands of lives. Order was restored but the hatred of the mainland Chinese was increased.

After the rebellion the American Ambassador in Nanking attempted to persuade the Generalissimo that National Government tactics in the long run could never succeed and that the Government by its policy was destroying a source of wealth it desperately needed at that time. The Generalissimo, who professed to be unaware of conditions as they were reported to him by the Ambassador, and who relied on the findings of a Chinese investigating mission whose findings were in large part published and exonerated Chen Yi, was led to request that a memorandum be prepared for him setting forth in detail conditions as American officials saw them. This was done.<sup>57</sup>

The facts set forth were such that General Chen Yi had finally to be relieved of his post as Governor, and in May 1947 a civilian, Wei Tao-ming, former Ambassador to the United States, was named as his successor. During the ensuing year and a half, Governor Wei made an

<sup>57</sup> For text of memorandum to the Generalissimo, see annex 169.



honest and earnest effort to remedy the situation. The military was kept out of sight, some Formosans were taken into the Government, encouragement was given to the local economy and the Governor himself attempted to isolate the island from the inflationary and destructive forces on the mainland, though many of the key officials were not responsive to his authority. Although it cannot be said that economic conditions improved, it can be said that the situation did not become measurably worse.

During his Mission to China, General Wedemeyer on August 17, 1947, reported to the Secretary of State as follows:

"Our experience in Formosa is most enlightening. The administration of the former Governor Chen Yi has alienated the people from the Central Government. Many were forced to feel that conditions under autocratic rule were preferable. The Central Government lost a fine opportunity to indicate to the Chinese people and to the world at large its capability to provide honest and efficient administration. They cannot attribute their failure to the activities of the Communists or of dissident elements. The people anticipated sincerely and enthusiastically deliverance from the Japanese yoke. However, Chen Yi and his henchmen ruthlessly, corruptly and avariciously imposed their regime upon a happy and amenable population. The Army conducted themselves as conquerors. Secret police operated freely to intimidate and to facilitate exploitation by Central Government officials. . . .

"The island is extremely productive in coal, rice, sugar, cement, fruits and tea. Both hydro and thermal power are abundant. The Japanese had efficiently electrified even remote areas and also established excellent railroad lines and highways. Eighty percent of the people can read and write, the exact antithesis of conditions prevailing in the mainland of China. There were indications that Formosans would be receptive toward United States guardianship and United Nations trusteeship. They fear that the Central Government contemplates bleeding their island to support the tottering and corrupt Nanking machine and I think their fears well founded."

In January 1949, as the Communists were preparing to cross the Yangtze, Governor Wei was summarily removed and replaced by General Chen Cheng, who proceeded to restore military rule. In recent months the population of Formosa has been increased by an estimated 400,000 civilians and over 300,000 military refugees from the mainland. With them they brought the mainland inflation and increased the population to a point which the island may not be able to support. In March 1949 American officials who had surveyed the economic

deterioration reported that "mounting economic dislocation will intensify economic friction leading to increased political tension unless remedial action is taken."

In summary, the views of American officials have been that the island is badly and inefficiently run at a time when the best possible efforts are needed unless developments on the mainland are simply to be transferred to Formosa.



## CHAPTER VII

# The Military Picture, 1945-1949

Although military aspects of the civil strife in China have been mentioned throughout the preceding five chapters, it will be convenient to summarize here the military picture since 1945 as background for a description of the military assistance of all types rendered by the United States to the Chinese Government since V-J Day. This assistance has included the supply of arms and other matériel, credits for military purchases, transportation of Chinese troops and military advice, but it has scrupulously excluded the use of American personnel in combat operations between the Nationalist Government forces and the Communists or their presence in combat areas.

## I. MILITARY OPERATIONS

### OPERATIONS IN 1945

With the formal surrender of the Japanese in September 1945, the Chinese Nationalists and the Chinese Communists began a contest for the control of Japanese-held areas of China. Forces of the National Government which had borne the brunt of Japanese thrusts were concentrated in Central and South China in those areas to which the Japanese advance had penetrated. The Communists, on the other hand, organized as guerrilla units, were widely dispersed throughout Central, North and coastal China, operating in the countryside through which ran the Japanese lines of communication. In the race for the control of those areas which the Japanese had occupied the Communists thus held a certain geographic advantage. The Government at that time, however, possessed an estimated five to one superiority in combat troops and in rifles, a practical monopoly of heavy equipment and transport, and an unopposed air arm.

In order to assist the Government in reoccupying Japanese-held areas and opening lines of communication, the United States immediately after V-J Day transported three Nationalist armies by air to key sectors of East and North China, including Shanghai, Nanking and Peiping, and likewise during the ensuing months provided water

transport for an additional large number of troops until, according to Department of the Army figures, between 400,000 and 500,000 Chinese soldiers had been moved to new positions. The plans for these operations and the planes and vessels to carry out the moves were provided through Headquarters, United States Forces China Theater. In order to assist the Government further in maintaining control of certain key areas of North China and in repatriating the Japanese, and at the request of the National Government, over 50,000 United States Marines were landed in North China and occupied Peiping, Tientsin, and the coal mines to the north, together with the essential railroads in the area. With such American assistance, forces of the Generalissimo, who had been designated by SCAP as the sole agent to receive the surrender of Japanese forces in China proper, were able to effect the surrender of the great majority of the 1,200,000 Japanese troops stationed there, together with their equipment and stocks of military matériel.<sup>1</sup>

Prior to V-J Day the American Government had embarked on programs to equip an air force commensurate with the Chinese Government's needs and a 39-division army. Following V-J Day, transfers were continued to provide for an 8½ group air force, and under an authorization to assist in equipping reoccupation forces, transfers of military matériel for ground troops were continued until, by the end of December 1945, according to Department of the Army records, sufficient equipment had been transferred to complete by tonnage the requirements of the 39-division program. Other lend-lease transfers included quantities of vehicles and quartermaster items which were of major significance in giving the Nationalist armies mobility and in equipping them for operations in North China and Manchuria.

The Communists for their part, despite the attempts of the National Government to enforce the order that all Japanese in China should surrender only to the Generalissimo, were able to force the surrender of numbers of Japanese in Central and North China. However, their greatest assistance was to come later from Manchuria, which the Russians had occupied and where, while engaged in the stripping of Manchurian industries, they were effecting the surrender of the Japanese. Upon the withdrawal of the Russian forces from that area in 1946, the arriving Government forces, hitherto prevented from occupying Manchuria, found themselves facing Chinese Communist forces already organized in the area and equipped with former Japanese weapons.

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<sup>1</sup> This was in accordance with General Order No. 1 issued by General MacArthur, Supreme Commander for the Allied Powers (SCAP).



As a result of military operations in the closing months of 1945 the Government was able to clear the Lunghai Railway (Lienyunkang and Paochi) and most of China south of it. To the north the Government held Peiping, Tientsin and the line of communications to the Manchurian border, Taiyuan, Tatung, and the western portion of the Ping-sui Railway (Peiping and Paotow). It had not, however, gained control of any of the major north-south railway lines, a serious handicap since forces in North China depended for their logistical support on bases in Central China.

The Government was faced with the alternatives of postponing the attempt to reoccupy Manchuria or of overextending its military forces in attempting to reoccupy it. This was in no case an easy decision to make. United States military advisers pointed out the dangers of occupying Manchuria in view of the logistical difficulty of supporting operations there while attempting to pacify China proper. The Chinese Government in deciding to put its best armies and main effort into reoccupying Manchuria at the end of a 1,000-mile-long supply line committed itself to a scale of operations it could not support, and opened the way to the eventual piecemeal destruction by the Communists of its widely scattered military units.

#### OPERATIONS IN 1946

During the period of General Marshall's mission in China, the Government considerably improved its military holdings. Government armies in mid-1946 comprised approximately 3,000,000 men, opposed by something over 1,000,000 Communists of whom an estimated 400,000 were not regular troops. In the first part of that year the Nationalists succeeded in clearing important lines of communication including the Lunghai in Central China, parts of the Pinghan (Peiping and Hankow) and connecting north-south communications, and railway lines into Manchuria as far as Changchun. The Communists, routed at Ssuninghchieh in Manchuria, saved their forces from annihilation only by a rapid retreat across the Sungari River. The Communists for their part during the first half of 1946 extended their holdings west into Kansu and Ninghsia, and somewhat increased their control of areas in Shansi and along the Ping-sui Railway. In general, however, major areas of combat were limited to Manchuria where, as previously indicated, Communist gains were made as a result of the withdrawal of the Russians from Manchuria, handled in such a way as to facilitate Communist acquisition of this territory and the Japanese equipment therein. During the latter part of 1946 the Nationalists made impressive gains, clearing most of Shensi, Kansu, north Shansi, south Chahar, part of northern

Hopeh and Jehol and nearly all of Kiangsu. The Government seized Kalgan, Tatung, Chengte, and gained control of the Ping-sui Railroad.

In Shantung the Nationalists achieved a major advance, clearing much of the Tsin-pu Railway (Tientsin and Pukow). Communist gains during this period were limited to minor advances into Honan and Hupeh, and infiltration around Government positions in Manchuria. By the close of 1946 the superiority of the Government's forces was in most areas as yet unchallenged.

The gains of the Government from V-J Day to the end of 1946 appeared impressive when viewed solely from the standpoint of areas occupied and lines of communication cleared. The Government desire to occupy Manchuria with its concentration of heavy industries is understandable. It was essential, however, for it to control the lines of communication to and in the areas it was clearing, for unlike the Communists operating as guerrillas and living off the country, Government forces were supplied from bases in Central China. In occupying Manchuria and in garrisoning such extensive lines of communication and the major cities along them, the Government overextended itself both militarily and politically, with neither the troops to garrison such holdings nor the personnel to administer them. The occupation of these areas without the ability to draw support from their resources meant a loss rather than a gain. In this sense the Nationalists found themselves in a position not dissimilar from that of the Japanese during their war with China, when, though holding the lines of communication, they found themselves unable to bring the conflict to a successful conclusion. The Communists, on the other hand, making no effort to hold specific positions, retreated before Government forces and succeeded in keeping their own units intact and mobile for eventual concentration and use at points of their own choosing against Government units tied to the defense of fixed positions.

Department of the Army figures indicate that at the end of 1946 the Government had 2,600,000 men under arms. Communist strength at this time was over 1,100,000 men, the acquisition of Japanese stocks in Manchuria having made possible the development of more effective forces. The Government still, however, enjoyed a marked superiority in rifles variously estimated at from three or four to one. That the Government, possessing this superiority in men and equipment, should so soon be forced on the defensive was less attributable to the admitted skill of the Communists in planning their campaigns to conform to their resources than to the military ineptness of the Government in initially overestimating its capabilities, and subsequently refusing to adjust to the realities of the situation.



## OPERATIONS IN 1947

In 1947 the strategic initiative passed from the Government to the Communists and the latter carried the conflict from Manchuria and North China into areas which had supposedly been cleared by the Government. Activity which marked the turning point in the strife included the mounting by the Communists of a series of minor offensives in Manchuria and the successful blunting of a major Government drive into Shantung. The first Communist offensive in Manchuria was mounted early in 1947 and lasted for only a few weeks, but it and three successive drives wore down the Government units defending key positions. The fifth Communist offensive mounted in May covered most of Manchuria, netting the Communists over 20,000 captured rifles in its opening operations, lowering Government troop morale in proportion to the increase in Communist morale, and leaving the Government units in Kirin, Changchun, and Ssuningchieh surrounded. The reasons for the Communist victories must be sought in an appraisal of National failings rather than in positive Communist accomplishments. Observers in the summer of 1947 noted that the Communists had met no Nationalist resistance, with the result that the Communists completely possessed the initiative. Several factors contributed to the lack of any will to resist on the part of Government troops. American military and diplomatic observers in China reported that there was a rift in the Chinese Nationalist high command in Manchuria which produced indecisive leadership; that troops who for a year had been performing garrison duties had lost their offensive spirit; that during this period of military occupation friction had developed between Government military personnel drawn mainly from Central and South China, who considered themselves conquerors and conducted a carpet-bag regime of exploitation, and the local populace who had so recently greeted them as liberators from both the Japanese and the Russians.

The Consul General at Mukden on May 30, 1947, forwarded the following appraisal of the situation to the Department of State:

"In past two months morale Nationalist forces has deteriorated at rapidly accelerating pace. Present serious state of their demoralization has been confirmed to us by many sources (including various other Chinese contacts, UNRRA officials, Americans just arrived from Kirin, and indirectly NECC<sup>2</sup> quarters) and has become matter of wide public knowledge and talk. It is reflected in jumpy nerves of military garrison, efforts to evade conscription, and reliable information from all sectors of Nationalist territory (including points distant from cur-

<sup>2</sup> North East Combat Command.

rent fighting) indicating that Nationalists in a panicky state are feverishly building trench systems everywhere with only 'Maginot' defense strategy in mind. There is good evidence that apathy, resentment, and defeatism are spreading fast in Nationalist ranks causing surrenders and desertions. Main factors contributing to this are Communists ever mounting numerical superiority (resulting from greater use native recruits, aid from underground and Korean units), National soldiers discouragement over prospects getting reinforcements, better solidarity and fighting spirit of Communists, losses and exhaustion of Nationalists, their growing indignation over disparity between officers enrichment and soldiers' low pay, life, and their lack of interest in fighting far from home among 'alien' unfriendly populace (whereas Communists being largely natives are in position of fighting for native soil).

"This does not mean Manchurian collapse is necessarily imminent. It does mean, however, that Nationalist morale has reached a point where there is the possibility of a sudden debacle laying all Manchuria open to the Communists whenever they choose to take it. In such an event the Communists might close in immediately for the kill or prefer to wait, while preparing the ground psychologically and ruining the government's morale which is not yet fully reflected in the military picture."

The Communists in seizing the initiative brought superior forces to bear at points of greatest Government overextension, destroyed isolated bodies of troops, cut communications and seized arms. At this period the Government appears to have had two alternatives: to reinforce its units sufficiently to enable them to assume the offensive, closing with, and if possible destroying, the enemy, or to withdraw before constant attrition made disaster inevitable. Any compromise course offered the double penalty of both the loss of Manchuria and the armies defending it. Reinforcements which could ill be spared from other areas were sent to Manchuria, but these were not adequate to compensate for losses sustained in the spring offensive. The Government's further attempts to replace losses with recruitment from Manchuria failed dismally, a marked indication of its failure to win the support of the local populace. Though the Communists were not yet strong enough to dislodge the Government from its main strongholds, the Government's units, isolated and with their lines of communication threatened, took on the aspect of beleaguered garrisons waiting for reinforcements which would never come.

The failure of the Government to use properly the American trained and equipped armies which it had sent to Manchuria, far superior to



any Communist units, indicated that in this particular area faulty generalship counted more heavily than fire power, and troop morale more than superiority of equipment.

In other areas of China, Government forces in general kept the initiative well into 1947. Large areas of Shantung were occupied and by October the Government had seized Chefoo. In the west Government forces attacked and seized Yen-an, the Communist capital, using an estimated 75,000 troops in this operation. Widely heralded as a great victory, this was in reality an expensive and empty one, for the Communists, contrary to Government procedure, were unwilling to violate sound military policy by committing major forces in combat for a city which had symbolic but not military significance. The Communists evacuated Yen-an without a struggle, leaving the Government to support its troops in the mire of the deserted Shensi area.

By mid-summer the Communists had started a southward movement across the Lunghai and toward the Yangtze. This process, at first an infiltration rather than a general movement, forced the Government to abandon some of its gains in Shantung in order to reinforce its positions along the Lunghai. In commencing this movement south while the Government had large forces concentrated in Manchuria and Shantung, the Communists were operating on what appears to have been an effective appraisal of Nationalist intentions and capabilities, a realization that the Government was committed to positional warfare, was overextended, that for reasons of prestige it would not withdraw or consolidate, and that mobility and the initiative lay with their own forces. By late 1947 the Communists had concentrated such a considerable force in Central China that only a major Government offensive could have dislodged it. Committed to the holding of widespread areas the Government had no reserves for such operations, though Government forces now comprised 2,700,000 men facing 1,150,000 Communists according to the best available estimates of American military personnel.

By the close of 1947 Communist units lay in strength along the railroads from North China to Manchuria, constantly threatening interdiction of traffic on these lines; they had occupied portions of the Tsinan-Tsingtao Railroad in Shantung, had extended their holdings along the Ping-han, and were preparing operations which in the following months would interdict traffic on the Lunghai. The Communists held the rail lines in Manchuria north of Mukden and as the year closed were conducting operations which cut permanently the railroad south of that city. For Government forces, which had not succeeded in developing local resources, the supply and replacement

problems were critical. Government forces thus effectively compartmented by the interdiction of their lines of communication were to be dealt with separately in the coming year.

#### OPERATIONS IN 1948 AND 1949

A Communist offensive mounted late in December of 1947 severed all railway connections into Mukden and isolated all the major Nationalist garrisons in Manchuria. The Government withdrew the bulk of its forces from Kirin and Changchun in order to reinforce its Mukden garrison. To supply the 150,000 to 200,000 troops within the immediate Mukden area, the Government resorted to costly airlift operations. Though the forces garrisoning Mukden included the New First and the New Sixth Armies, the two best units available, the Government feared to commit these troops to offensive operations lest the forces operating in the open country defect to the enemy, or lest attrition or defeat endanger the entire Government position in Manchuria. The Communists refrained from costly attacks on entrenched Government forces.

Elsewhere in China the Communists pushed their advantages. In Shensi they reoccupied Yen-an in mid-April. In the course of this and subsequent operations they destroyed or captured the Government units which had originally captured Yen-an, together with considerable reinforcements, meeting little resistance in this operation, during which many Government troops defected to the Communists. Government fear of further defections became a restraining influence in the planning of operations and tended to constrict Government forces even more deeply in their defensive positions.

Communist forces in Central China remained comparatively quiet but in the spring moved against and seized several points along the Lunghai including Loyang and Kaifeng, at which they met only token resistance and from which they acquired considerable stores. In Shantung the Communists took the offensive, the first major test in this territory coming with the seizure of Weihsien. The senior officer of the United States Military Advisory Group in China, Major General David Barr, in a report on his duty in China, made certain observations on this engagement, the substance of which follows:

In this battle the Nationalists' commander, in order to preserve his forces intact, withdrew them from the main areas of conflict into the east city. In a subsequent attempt to evacuate his forces, he was caught and his troops were destroyed. While the battle for the city was being joined orders were issued for Government columns to move from Tsinan and Tsingtao to relieve the city. The column from Tsinan, three divisions strong, met inferior Communist forces and



made no serious attempt to fight through to Weih sien. The column from Tsingtao returned to that city without having engaged the enemy. The Government's defeat at Weih sien revealed that disloyalty, poor morale and lack of will to fight marked the Government units involved.

An ECA mission studying conditions in China expressed the following views in a report dated July 23, 1948:

"The Mission was really startled by the facts about the military situation in China and to find such an enormous gap between what they had supposed to be the case and the actual truth. We were surprised at the wide gulf between the combined opinion of our own competent military in China supported by the Ambassador and the present military and related policy of the Chinese Government in Nanking. This was despite repeated and continued efforts on the part of the Ambassador with the support of the American military advisers to persuade the Government to a change in its military strategy and tactics."

The Nationalists, however, clung to their defensive strategy, making possible a major Communist victory in Shantung at Tsinan, where 85,000 to 100,000 Government troops took refuge behind the strong natural and constructed fortifications of the city. The best available estimates indicate that the Communists brought to bear against Tsinan's defenders a margin of superiority not normally adequate to justify hope of victory in conflict for such a strong position. After a brief period of fighting, marked by the defection of units of the Nationalist 84th Division, the Communists took the city on September 23-24, 1948. With this victory they acquired an estimated 50,000 rifles and considerable stocks of ammunition.

The Consul General at Tsingtao submitted the following evaluation of the causes for the Government's defeat:

"Prime cause for swift loss of city is psychological rather than material or military. Nationalist garrison had been isolated for two months with no possibility ground support. Previous Nationalist defeats in which Nationalist troops failed fight known to Tsinan garrison and people. Communist victory at Tsinan felt inevitable in view record of failure of Nationalists and consistent victories of Communists who at Tsinan used many of best troops. Nationalist soldiers and population Shantung in general no longer consider Nationalist Government merits continued support in civil war, loss of lives and economic chaos. These factors expressed themselves in outright defection to Communists, immediate surrenders, and failure to stand and fight. Those soldiers willing to fight were unable to

trust other units to support them. No mutuality of feelings between regular forces and local Peace Preservation Corps troops. Nationalist regulars were largely from Central and South China and had little interest in defending strange city and people. Communists undoubtedly had organized support within city. No real attempt made defend perimeter at distance outside of city wall. Antiquated custom of falling back to city walls was speedily observed by Nationalist defenders. Other military causes were poor intelligence, failure to take initiative against Communists when concentrating for campaign and thus keeping them off balance. Belated inadequate improper air support.

"In a summary, majority troops at Tsinan did not want to fight while those that did fight found their position made impossible by the disaffected. Defection of Wu Hua-wen was merely the manifestation of a general phenomenon. His treason was not of itself the cause of defeat.

"Nationalists at Tsinan had ample ammunition and food and assurance of further supplies in event protracted siege."

The Communists encouraged by this victory rapidly moved against Chinchow, supply base for Government forces in Manchuria. At this city the Government had over 70,000 troops including units of the recently brought up Eighth Army under General Fan Han-chieh, reputedly one of the ablest Chinese generals. Against these troops the Communists, availing themselves of their superior mobility, concentrated a numerically stronger force. The Government at Mukden, 120 miles distant, had 150,000-200,000 men, including its best armies. It had complete control of sea lanes and had available the port of Hulutao to which reinforcements could and were eventually sent for this key battle. It was obvious that the supply of units in Manchuria, totaling some 300,000 men, would become vastly more difficult if Chinchow fell and that its loss meant the eventual loss of Manchuria.

The commander of the Nationalist forces at Mukden, General Wei Li-huang, was ordered to commence a movement to relieve Chinchow by September 25. Wei delayed his departure from Mukden until October 9 and then moved out slowly and without his complete forces. Strong reinforcements were landed at Hulutao but only a portion of them moved toward Chinchow; on meeting opposition these were committed piecemeal and never reached their objective. According to Department of the Army reports, Government units of the 93rd Army defending the city defected to the Communists and on October 15, 1948, the Communists occupied it. In this victory the Communists acquired not only the rifles and equipment of the defending forces



but also great quantities of stores which had been stockpiled for the use of Government forces in Manchuria.

The Generalissimo at this time flew to Peiping and assumed direction of field operations. This placed the actual commander miles from the scene of fighting with no adequate information on the condition of his forces or on the forces of the enemy. Commands were sent direct to the commanding general of the units involved, eliminating the normal coordinating staff levels. Though military observers considered that the general plan of action evolved was sound, the lack of any coordinating procedure produced complete confusion on all operating levels. In a belated attempt to save the forces in Manchuria, orders were issued for them to evacuate that area.

Events of the immediately following days have not yet been clearly reconstructed. While Government units were operating in the field, the Communists struck at the headquarters controlling their movements and captured or killed its ranking officers. With no coordinated direction, the previously American trained and equipped units which had won such an illustrious record against the Japanese, disintegrated. A few stragglers found their way back to Mukden, which was surrendered to the Communists without a fight. A few thousands succeeded in reaching Yingkow and were evacuated by ship, but the overwhelming majority of the Government forces in the Mukden area surrendered without a fight to the Communists.

The Government in occupying Manchuria took steps contrary to the advice of competent United States military observers who were aware that the Government could not reoccupy Manchuria and pacify the rest of China as well. As indicated previously Government forces in Manchuria were supplied from bases in China proper. A contributing factor to the supply difficulties was the Russian occupation of Dairen which denied to the Government the use of Manchuria's most efficient port and connecting railway line (though other ports were available at Hulutao and Yingkow). After initial offenses had been blunted, the Government fell back on the defensive. Officers and troops of the Government never obtained the support of the people on whom they were billeted. The loss of Manchuria was a tragedy for the Government for it meant the loss of China's most highly developed industrial area, the prize which had originally drawn the Government there. Of even greater significance was the loss of the forces and resources without which successful resistance in North China became impossible. The loss of Manchuria was the most striking illustration of the Government's overestimation of its capabilities.

The Chinese Air Force, which had played no essential part in assist-

ing the Government forces during these battles, appeared after the Communists had occupied Mukden and engaged in bombing from such altitudes that competent military observers considered the operation a complete waste.

The tempo of the civil war after the fall of Mukden increased rapidly. The Communists immediately moved against Hsuehchow, where the Government had maintained twenty-odd divisions spread out along the Lunghai Railway. In an attempt to save the forces in this area an evacuation was ordered, but the action taken was neither decisive nor on time, and before the evacuation had been completed the Government forces were surrounded by the Communists. In early November General Barr reported to the Department of the Army:

"Deterioration of military situation in the Hsuehchow area previously reported has worsened due to known defection to the Communists of two Nationalist Divisions with the suspected defection of an additional three. As this defection becomes known to other Government units it can be anticipated that it will spread rapidly not only in the Hsuehchow area but elsewhere."

Both the former Hsuehchow garrison and a force which had moved up to reinforce it were isolated and destroyed after a minimum of conflict.

Tientsin fell on January 15, 1949, after a brief siege; Peiping surrendered without a fight at the end of January.

In a review of military developments from January 1, 1948, through January of 1949 the Intelligence Division of the Department of the Army stated:

"The Nationalists entered 1948 with an estimated strength of 2,723,000 troops. Recruitment and replacement of combat losses kept this figure constant through mid-September. By 1 February 1949, however, heavy losses had reduced Nationalist strength to 1,500,000, of which approximately 500,000 are service troops. This represents a reduction of 45 percent of the Nationalist Government's total troop strength, in a 4½-month period.

"Communist strength, estimated at 1,150,000 a year ago, has mounted to 1,622,000, virtually all combat effectives. This increase of approximately 40 percent represents the creation of new units, particularly in Manchuria and East Central China. Whereas the Nationalists began 1948 with almost a three-to-one numerical superiority, the Communist forces now outnumber the total Nationalist strength and have achieved better than a one-and-a-half-to-one superiority in combat effectives. The expansion was accompanied by continued reorganization of the military forces along more uniform and orthodox lines.



"The events of the last year, and more specifically those of the last four and one-half months, have resulted in such overwhelming losses to the National Government that, acting alone, its military position has declined beyond possible recoupment. On the other hand, these same events have so enhanced the position and capabilities of the Communists that they are now capable of achieving a complete military victory over the Nationalist forces. Other considerations, particularly those of a political character, may affect the speed with which this capability is exercised."

The Military Attaché at Nanking estimated that during this 4½-month period Government forces lost over 140,000 American rifles. Losses of other than American rifles are estimated to have been several times this figure—practically all of which fell undamaged to the Communists. Military estimates indicated that during this same period the Communists effectively integrated into their own forces approximately 200,000 former Government troops who could be used as combatants, with possibly 400,000 more captured Nationalist troops being integrated into Communist service units.

On April 20, 1949, the Communists crossed the Yangtze without effective opposition by either the Chinese Army or the Chinese Air Force and, having occupied Nanking, moved rapidly toward Shanghai, which fell on May 25. Communist units which had crossed the Yangtze to the west of Shanghai pushed forward rapidly meeting no resistance from Government forces, which withdrew from their advance. By the second week in May the Communists had pushed some twenty armies 120 miles south of the Yangtze and were continuing to advance without opposition. Since then Hankow has fallen, and Sian, gateway to the northwest, has been captured.

Department of the Army estimates indicate that Government forces remaining in China prior to the fall of Nanking and Shanghai consisted of 315,000 in those areas; 175,000 at Sian, described by Chinese Government officials as unreliable; 120,000 under General Pai Chung-hsi in the Hankow area; an estimated 120,000 in the northwest without equipment or the industrial facilities to provide it; and possibly 120,000 to 150,000 others scattered elsewhere throughout China in isolated garrisons.

## II. AMERICAN OPERATIONAL ADVICE TO THE CHINESE

### DIRECTIVES TO GENERAL BARR ON ADVISORY ACTIVITIES

In 1946 there had been established in China a United States Advisory Group to assist in the implementation of certain phases of

American policy. It was kept in existence until late 1948. During the latter part of its existence it was under the command of Major General David Barr. The functions and operations of the Advisory Group are described in subsequent sections of this chapter. Though unwilling to assume responsibility for Chinese Government strategic plans and operations, the United States Government determined in the fall of 1947 to authorize the senior officer of the Army Advisory Group to make his advice available to the Generalissimo on an informal and confidential basis. Instructions from Secretary of State Marshall to the Ambassador in this sense were forwarded on November 28, 1947, reading as follows:

"You may rest assured premise is fully accepted here that military expenditures on present war scale are incompatible with balancing of Chinese Government budget which in turn is prerequisite to controlling of inflation. You may recall it was in anticipation of ultimate consequences for China of such a situation that as long as two years ago this Government attempted to prevent civil war in China. Furthermore it is a moot question whether military expenditures could in fact be cut during a period of civil war if present forces were reduced but remaining numbers given adequate care and equipment; it seems evident that only well led and well trained and cared for divisions imbued with improved spirit would be capable of assuming and holding initiative against Chinese forces.

"I am willing that General Barr should make his advice available to Generalissimo on informal and confidential basis and that Army Advisory Group should supply advice with respect to reorganization of Chinese Army Services of Supply should that be desired. I am however not willing that we should accept responsibility for Chinese strategic plans and operations. I think you will agree that implications of our accepting that responsibility would be very far-reaching and grave and that such responsibility is in logic inseparable from authority to make it effective. Whatever the Generalissimo may feel moved to say with respect to his willingness to delegate necessary powers to Americans, I know from my own experience that advice is always listened to very politely but not infrequently ignored when deemed unpalatable."

Prior to his departure from the United States, General Barr, later to be appointed director of JUSMAG, received additional oral instructions from the Secretary of State authorizing him to give this advice on a personal and confidential basis. Following a conference with the Generalissimo, arrangements were made whereby the Chinese Ministry of National Defense provided General Barr information on



Chinese operations, and channels were established through which General Barr could make known to the Chinese his recommendations.

#### GENERAL BARR'S REPORT

The section following relates some of the recommendations made by General Barr and the manner in which the Chinese received and acted upon this advice. The section consists of quotations from a report submitted by General Barr early in 1949, with the occasional explanatory material added by the Department of State enclosed in brackets.

*Report of Operational Advice Given to the Generalissimo, the Minister of National Defense and the Chief of the Supreme Staff by Major General David Barr*

An early estimate of the situation, prior to the first formal meeting of the select combined group, convinced me of the futility of continuing to hold isolated Manchurian cities which were totally dependent upon air for both civilian and military supply. The combined air-lift capacity of Chinese civilian and military transports fell far short of the enormous tonnage requirements. The cost of air-lift replacement, maintenance and fuel—in a country bereft of gold credits—could only result in economic disaster, while making only ineffectual contributions to the supply effort.

Early in March, therefore, when the Communists had withdrawn their main forces from the vicinity of Changchun and Mukden, after their winter offensive, I strongly urged the Generalissimo to take advantage of this opportunity to make a progressive withdrawal from Manchuria. He was aghast at this proposal, stating that no circumstances would induce him to consider such a plan. Hopeful of a compromise, I suggested the withdrawal into Mukden of the Changchun, Kirin and Ssuningchieh garrisons. To this the Generalissimo replied that political considerations precluded the abandonment of Changchun, the ancient capital of Manchuria, but that he would consider a plan for withdrawing the Kirin garrison into Changchun. The Kirin garrison was accordingly withdrawn at a later date.

In my next conference with the Generalissimo, and after his reiterated determination not to consider a withdrawal from Manchuria, I proposed that an early offensive be launched to open rail communications between Chinchow and Mukden. The Generalissimo enthusiastically concurred, and instructed his staff to prepare a plan in consultation with my assistants.

At a meeting at the Ministry of National Defense War Room on 8 March 1948 General Lo indicated that a general plan for the opening

of a corridor to Mukden had been prepared and approved by the Generalissimo. . . . On 5 May 1948, a coordinated attack from Mukden and Chinchow would be mounted to open a corridor along the railroad between those two points.

The lack of a broad strategic plan for operations was so obviously missing that I inquired if such a plan existed. I was told that the Chinese Armed Forces were then operating under a "Six Months' Plan" and that a "Two Year Plan" had been prepared but was not yet approved by the Generalissimo.

During the period between the date of the above meeting and 17 March 1948, the following events occurred:

The Nationalist 69th Army evacuated Kirin on 12 March and withdrew into Changchun.

Ssuningchieh was captured by the Communists on the night of 12 March.

Air lift of 23,000 Nationalist troops from the Kaifeng-Loyang area to Sian was initiated. For this air lift, all available military transport aircraft was employed, the operation extending over several weeks to the detriment of other operations I considered more important. General Hu Tsung-nan, an old friend of the Generalissimo, had prevailed upon him to reinforce his Sian garrison to an extent which was later to prove disastrous to the Nationalists in East Central China. The loss to the Communists of the Kaifeng-Chenghsien-Loyang area was a direct result of this shift of troops to the west. It has been my contention throughout that the strategic importance of Sian was highly overrated. To this day, a large number of Nationalist troops remain at Sian which could have been far more profitably employed elsewhere.

The greater part of two Nationalist divisions were destroyed in the mountains northeast of Sian because of poor reconnaissance and no march security.

A meeting was held at the Ministry of National Defense War Room on 17 March 1948. In discussing the coming offensive to open a corridor to Mukden, the Chinese stated that it would take six months to repair the railroad between Chinchow and Hsinmin.

On being questioned as to the amount of destruction the Nationalists were able to achieve prior to the evacuation of Kirin, the Chinese were vague. I pointed out that a large amount of the arms and ammunition in the hands of the Communists was captured Nationalist equipment and that the practice of permitting such material to fall into the hands of the Communists was prolonging the war. Although I stressed this point many times after that, it was of little avail. The Chinese seemed inherently unable to destroy anything of value.



At a meeting with the Generalissimo on 24 March, I discussed with him the following subjects, among others:

(1) The food situation in Mukden and our ability to assist by immediate delivery of 12 United States C-46's out of a total of 20 available in Japan for turnover to the Chinese.

(2) That United States ammunition from the Pacific, destined for Mukden, had not yet been moved to that city although it had arrived in Shanghai.

(3) The necessity of a definite and detailed plan for the opening of a line of communication to Mukden. In this connection, the Generalissimo again assured me that he intended to hold Mukden at all cost.

(4) The Generalissimo stressed the need for .45 caliber ammunition for use in the large number of submachine guns being used in the Nationalist Army.

In connection with paragraphs (1) and (4) above, I was able to forward a memorandum to the Generalissimo on 29 March informing him that 1 million rounds of .45 caliber ammunition were being made available to him and that the transfer of 16 to 20 United States C-46's had been approved.

A meeting was held at the Ministry of National Defense War Room on 16 April. . . . Following the above meeting, I called on General Yu Ta-wei, Minister of Communications, and learned that his office had received no instructions regarding the reconstruction of the Chinchow-Hsinmin railroad. He stated, however, that he had been informed of the plan and was going ahead with his preparations.

On the 29th of April, at a conference with the Supreme G-3, he again assured my staff that the Mukden attack would be launched on 5 May. He stated that the Generalissimo had ordered the attack to jump off not later than the 5th day of May. . . .

On the 30th of April, my staff interviewed an officer of the Combined Service Forces installation in Mukden. He had only been in office 4 days but had been sent to Nanking by Wei Li-huang to plead with the Ministry for food and gasoline and additional air transport to carry it in. He stated that the Army had food for about 3 weeks and that he needed 3 million gallons of gasoline. He stated that he had had a meeting with the Supreme Staff and that he could get no cooperation from the Chinese Air Force but had arranged with the civilian air lines to fly in an additional month's supply of food. (COMMENT: Each day brought new facts to confirm my belief that General Wei Li-huang had no intention of mounting the proposed attack on 5 May.)

On 1 May 1948 my staff, in conference with the Supreme G-3, was informed of a victory northwest of Sian in which parts of the 2d, 4th

and 6th Communist columns in that area were destroyed by the 82d Nationalist Division and other troops of General Ma. A dispatch from General Li, Deputy Supreme G-3, then in Mukden, stated that Wei Li-huang wanted reinforcements from North China before staging his attack. General Lo Tseh-Kai, Supreme G-3, did not believe then that the attack would be mounted. He stated that Wei Li-huang was coming to Nanking to confer with the Generalissimo. (COMMENT: I determined then that if the attack did not take place as planned, I would recommend to the Generalissimo that Mukden be evacuated quickly before the Communists could stage their spring offensive, since Mukden and Changchun could not be indefinitely supplied by air.)

Having been notified that General Chiang, Deputy Chief of Staff of the Mukden Headquarters was in Nanking, I arranged a conference with him at the Ministry on 4 May 1948. General Chiang led off with a lengthy description of recent Communist movements from the north towards the Mukden area, of their excellent state of supply and training and of the assistance they were receiving from Russia. It was obvious that he was leading up to the news that the proposed Nationalist attack to open the corridor to Chinchow would not be mounted.

He stated that the morale of the Mukden forces was high and that they wanted to fight and defeat the Communists. When asked "why not then fight now before it is too late?", General Chiang answered that reinforcements from North China were necessary. He stated that a strong defense of the Mukden-Chinchow areas should be made at that time and a coordinated attack to open a corridor be made later. He advised to sit tight until the Communist intentions became clear and then take action. This was undoubtedly the policy Wei Li-huang would pursue in spite of all orders to the contrary from the Generalissimo and the Supreme Staff. The opportunity to take the initiative away from the Communists had been lost. It was extremely doubtful if a later attempt to open a corridor would be successful.

I attended the conference mentioned above, on the afternoon of the 5th of May at the Generalissimo's home. Present were the Generalissimo and Madame Chiang Kai-shek, the three Mukden Generals mentioned above and several members of the Supreme General Staff. After a lengthy discourse by the Mukden Generals as to the reasons the long awaited Manchurian operations could not then be staged, the Generalissimo asked for my opinions. I told him that I had heard nothing but reasons why the attack could not be mounted. That at a later date I was convinced the same excuses would be given



plus those that would develop during the interim. I recommended that the attack be mounted then and that if this could not be accomplished then Manchuria should be evacuated while an opportunity still offered itself. I pointed out that Communist strength in Manchuria was increasing and that if success was uncertain at this time, it was definitely impossible later. I further pointed out that Changchun and Mukden could not be indefinitely supplied by air. The Generalissimo stated that because General Fu Tso-yi could not spare two armies from North China at that time to reinforce the Chinchow garrison, a reinforcement being considered necessary to the success of the operation, he had decided to postpone the attack to 1 August 1948. He further stated that the troops then available in Manchuria would be the only ones that could be counted upon and enjoined the Mukden commanders to use the time available for the intensive training of these troops. (I would like to point out at this time that the Generalissimo had directed General Wei Li-huang as early as the preceding winter to prepare plans and ready himself for an attack early in May to open a corridor from Mukden to Chinchow. That the Supreme G-3 and members of his division had made six separate trips to Mukden in an effort to press preparations for this attack. That both myself and my staff had continuously urged the Chinese towards this effort since early February. That General Wei Li-huang was able to get away with such complete disobedience of orders without punishment or even censure, as far as I know, points out one reason why the Nationalists are losing the present war.)

On 6 May 1948, the Supreme G-3 had a conference with the three visiting Mukden Generals. General Chao had told him that the Communists had learned of the proposed Nationalist attempt to open the corridor and were moving troops to intercept the attack. He insisted that more time was needed to train and organize more troops. His main theme was to *defend* Mukden and Chinchow thus containing large masses of Manchurian Communists which in turn meant the salvation of North China. The G-3 disagreed and pointed out that another such opportunity to wrest the initiative from the Communists and defeat them would not occur again.

At a meeting on 29th May I asked whether there was any intention or thought being given to a withdrawal from Manchuria and was given a negative answer. I stated that if Chinchow fell as a result of inaction at Mukden, then Mukden was surely lost and that this should be made clear to Wei Li-huang. The Chief of Staff informed me that an agreement was reached at the Generalissimo's headquarters that if Wei Li-huang failed to assist the Chinchow garrison, he would be severely punished.

During the month of May 1948, certain political and military developments occurred which are of interest. The National Assembly adjourned on 1 May after electing Chiang Kai-shek and Li Tsung-jen President and Vice President respectively. On 10 May the Executive Yuan resigned en bloc which brought most government efforts to a standstill and made decisions difficult to obtain. A new Cabinet was not appointed until after Inaugural Day, 20 May. General Ku Chung-tung, Commander of the Ground Forces, was named Supreme Chief of Staff during the week ending 14 May and General Yu Han-mou was named as Commander of the Ground Forces. The selection of these officers to fill these highly important military posts was a disappointment to me. Their military background left much to be desired. They were staunch supporters of the Generalissimo and it was obvious that their appointment was for political expediency rather than ability. I had met them both before and had been impressed by their lack of personality.

[In view of the Chinese determination not to abandon Manchuria and following an inspection of certain areas there by American officers, General Barr on June 2, 1948, submitted new proposals for offensive action in Manchuria.]

During the period from the 20th to the 30th of June, my staff in personal conferences with the Supreme G-2 and G-3, were made acquainted with the following facts:

Because of the serious situation forming in East Central China, the Generalissimo flew to Chienhsien, west of Kaifeng to personally direct operations. On the 24th of June he held an important military commanders' meeting at Sian. In connection with this and other such meetings, the Minister of National Defense, General Ho Ying-chin, complained to me, with some bitterness, that the Generalissimo often issued operational orders direct without informing him or the Supreme General Staff. This is a well known failing of the Generalissimo's. It was reported to my staff that the Chinese Air Force in a weak effort to support the defenders of Kaifeng, strafed Communist columns from elevations well above 2,000 feet. This failing was mentioned to the Chinese on innumerable occasions without apparent result. Not only did they strafe from ineffective heights, but they also bombed from ridiculous elevations. It was also reported that Kaifeng was bombed during the Communist occupation, which was later proven untrue or at least the results were very ineffective.

Decision was made by the Generalissimo to defend isolated Tsinan to the last. (Such decisions have been costly to the Nationalists in troops and supplies.) I pointed out again to the Generalissimo and



to the Supreme Staff the futility of attempting to hold cities from within restricted perimeters by purely defensive measures against overpowering enemy forces. Tsinan at this time was isolated from Hsuehow by Communist forces at Yenchow and Taian. Although in considerable strength in this area the main Communist force was still on the Honan plains, southeast of Kaifeng. An opportunity existed to do one of two things. By offensive action north from Hsuehow and south from Tsinan, the Nationalist forces were capable of destroying the Communists and reopening the corridor between Hsuehow and Tsinan. The Nationalists were also capable at this time of evacuating Tsinan and withdrawing into Hsuehow. Having no confidence in the will to fight of the Tsinan garrison after their ineffective attempt to recapture Weihsien, and having heard reports of the questionable loyalty of some of the senior commanders, I recommended that the city be evacuated, and the troops be withdrawn to Hsuehow. Again, as in the case of Changchun, I was told that because of political reasons, Tsinan, the capital of Shantung Province, must be defended.

On July 2, 1948, at the invitation of the American Military Attaché, Brig. Gen. Robert H. Soule, I flew over Kaifeng and the area to the southeast thereof where heavy fighting was reported to be in progress. Reports of destruction in Kaifeng by the Chinese Air Force bombing and fire were proven untrue. With the exception of a few bomb craters outside the city walls, no effects of the bombing could be seen. We circled at low altitude all over the reported battle area southeast of the city, but with the exception of a few burning houses in scattered villages, a few mortar shell bursts, some marching troops and two fighter planes flying higher than we were, there was little evidence of the reported clash of half a million men.

At a meeting in the Ministry of National Defense War Room on 14 September 1948, the following observations were made by the Chinese:

The G-3 stated that although completely surrounded and isolated, food was still coming to Tsinan from the countryside. He believed that an additional division could be air lifted into Tsinan to assist in the defense. I recommended strongly against this believing that the city was lost and that it only meant the loss to the Nationalists of an additional division. One had already been air lifted in from Tsingtao. I recommended, that rather than fly in additional troops, the present Tsinan garrison be air lifted to Hsuehow.

On 24 September 1948 I learned that Tsinan had been captured by the Communists. The unexpectedly early fall of the city was the result of a defection to the Communists of an entire Nationalist divi-

sion which had been entrusted with the defense of the western approaches to the city. This division, former puppet troops, had been suspected and should have previously been relieved.

At a meeting with the Generalissimo on the 29th of September, the following matters, among others, were discussed:

The Generalissimo expressed deep disappointment over the outcome of the battle of Tsinan and stated that its fall was unexpected. He said that it was necessary for a study to be made on Chinese strategy, tactics, training and organization of field units in order that the mistakes committed at Tsinan would not be repeated. He said that the old strategy of holding strong points or key cities at all cost would have to go.

The Generalissimo said that my reasoning was very sound and expressed the hope that I would attend the weekly military operational conference held each Wednesday in the Ministry of Defense War Room. He asked that I give his operational officers the benefit of my experience and advice. I stated that I would be glad to comply with his request.

[In view of Communist activity around Chinchow the Generalissimo had ordered General Wei in Mukden to take aggressive offensive action to relieve the pressure further south. General Barr made the following comment on a meeting held October 1 in the Ministry of National Defense War Room:]

I pointed out that the situation in Chinchow was extremely critical, that five days had passed since General Wei Li-huang had received orders to attack to the west and that there had been no indication of such an attack getting under way. I recommended that the Mukden troops break out to the west of their position at once, ready or not.

At a luncheon meeting on 7 October 1948 the following matters were discussed and recommendations made:

General Ho Ying-chin announced that it had been determined to organize, train and equip an additional 28 strategic reserve divisions (three regiments in each) over and above the nine presently being organized and trained. I pointed out that little progress had been made in the original plan to form nine divisions and asked how he expected to handle 28 more. He replied that there were that many in the south and west that had been depleted in combat, were partially equipped, and could be brought up to strength and equipped with United States aid supplies supplemented by Chinese production. He stated that his representatives would confer shortly with Brigadier General Laurence Keiser, my Ground Division Senior Adviser, on the plan. This was another example of Chinese grandiose planning without thought or regard to the possibility of its implementation.



General Ho stated that the Generalissimo was in Peiping. (The Generalissimo did not return to Nanking until after the fall of Mukden and Chinchow. He directed this operation from Peiping without the assistance of his Supreme Staff whom he failed to keep informed as to what was taking place. In spite of this unorthodox procedure, the plans made and orders given were sound and had they been obeyed, the results would probably have been favorable.)

At a meeting in the Ministry of National Defense War Room on 13 October 1948, the following matters were discussed:

General Wei Li-huang had used only 11 divisions in his breakout to the west instead of 15 as ordered. He had been directed to employ his 52d Army to reinforce his operations. The attack had commenced on 9 October, 13 days after receipt of orders to attack immediately. Progress had been very slow to date.

In discussing the situation at Changchun, I learned that the garrison commander, General Cheng Tung-kuo, had received instructions from Wei Li-huang to coordinate his breakout with Wei Li-huang's attack, immediately before, during or immediately after. To date there had been no indications of any effort on his part to comply with these confused instructions and the situation at Changchun was obscure.

At a meeting in the Ministry of National Defense War Room on the 20th of October 1948, the following matters were discussed:

A briefing by the Supreme G-2 and G-3 disclosed the loss to the Communists on 20 October of Changchun after the defection of the majority of the garrison and the suicide of the garrison commander, General Cheng Tung-kuo. This report of suicide was later found to be untrue. It was reported also that Chinchow had fallen with four of the victorious Communist columns already moving south towards Hulutao. The efforts of the Nationalists to attack north from the Chinsi-Hulutao area had been completely unsuccessful while the movement southwest from Mukden of General Wei Li-huang's armies was disappointingly slow.

I asked whether or not plans had been prepared for the evacuation of the Chinsi-Hulutao area and upon being answered in the negative, I recommended that plans be made then to include shipping necessary for the evacuation of heavy equipment and supplies, and suggested that the troops fight south down the corridor.

I asked if it was known what General Wei Li-huang intended to do, since Chinchow had fallen, and suggested that he should evacuate Mukden entirely and fight southwest with the idea of entering North China. I pointed out that if he returned into Mukden, the Nationalist Government could not supply him much longer by air and that his

position would deteriorate into a second Changchun. General Ho Ying-chin agreed and stated that he had put this question up to the Generalissimo who was still in Peiping, but had received no reply.

In a visit to G-3 on the morning of 28 October 1948, my staff learned of the defeat of General Wei Li-huang's forces west of Mukden on 27 October. I recommended that the 11 Nationalist divisions then in the Chinsi-Hulutao area, be evacuated by sea at once or make a determined effort to fight their way south into north China before the main Communist strength could return to prevent it. I further recommended that the troops in Yinkow, and all that could reach Yinkow from Mukden, also be evacuated by sea at once. I could not refrain from pointing out that if Wei Li-huang had moved southwest promptly after receiving his orders on the 25th of September, instead of delaying until the 9th of October, and then had moved with speed in the attack, he would have saved Chinchow and could have brought all his strength into North China. General Ho admitted that I was correct, but stated that his hands were tied and that the Generalissimo had directed the entire operations alone from Peiping without reference to him or to the Supreme Staff. In this, of course, the Generalissimo was wrong, but the orders he issued to General Wei Li-huang for the conduct of operations in Manchuria were sound. Had they been carried out with determination and speed there was every chance of success. Chinchow, though sorely pressed, held out against the Communists long enough to enable the Mukden and the Hulutao-Chinsi forces to converge to their rescue had they moved promptly and fought with sufficient determination to get there in time. The Nationalist troops, in Manchuria, were the finest soldiers the Government had. The large majority of the units were United States equipped and many soldiers and junior officers still remained who had received United States training during the war with Japan. I am convinced that had these troops had proper leadership from the top the Communists would have suffered a major defeat. The Generalissimo placed General Tu Yu-ming, an officer of little worth, in charge of field operations, properly relegating to General Wei Li-huang over-all supervision from Mukden where he could do little harm. But Tu Yu-ming also fought the battle from Mukden, placing the burden of active command in the field to General Liao Yao-hsiang, Commanding General of the 9th Army Group. Liao was a good general but was killed early in the action. Without top leadership and in the confusion that followed the Communists were able to segment the Nationalist forces and destroy them piecemeal. General Wei Li-huang and General Tu Yu-ming deserted the troops and were safely in Hulutao at the end. The efforts of the troops in the



Chinsi-Hulutao area to relieve Chinchow were also futile. Instead of mounting an all-out attack with full force initially, which could have swept aside the Communists who were weakened by withdrawals sent against Wei Li-huang, the attack was developed slowly with troops being thrown in piecemeal. The attack soon bogged down with the troops showing little will to fight. The loss of Manchuria and some 300,000 of its best troops was a stunning blow to the Government. To me, the loss of the troops was the most serious result. It spelled the beginning of the end. There could be no hope for North China with an additional 360,000 Communist troops now free to move against its north flank.

[Following the loss of forces in Manchuria the center of activity shifted to Hsuehchow.]

At a meeting in the Ministry of National Defense War Room on the 25th of November 1948, the following matters were discussed:

The Supreme G-2 and G-3 briefed the assembly on the current military situation. The strength of the Hsuehchow garrison was given as 270,000. Regarding supplies, it was stated that ammunition was sufficient but a food shortage existed. I strongly recommended that Hsuehchow be evacuated at once and that its troops move south against the rear of the Communists forces below Shusien. The G-2 reported that the Mukden-Chinchow railroad had been restored. It had taken the Communists just 25 days to restore this line, a project the Nationalists had insisted would take 6 months when discussions were under way concerning the proposed Nationalist 5 May attack which never materialized.

At a meeting in the Ministry of National Defense War Room on 1 December 1948, the following subjects were discussed:

The usual G-2—G-3 briefing disclosed that four of the nine Nationalist armies at Hsuehchow were not being employed in the attack to the south. I recommended that the attack be an all-out one and that all troops be employed with a view toward evacuating the city entirely. I again stressed the necessity for speed. General Ho Ying-chin stated that the orders issued had been to that effect.

[Despite belated efforts of the forces in the Hsuehchow area to withdraw to more easily defensible positions these forces were surrounded and destroyed by the Communists as were units moving to their relief. As it became apparent that the remaining military forces of the Government were powerless to stop the Communist armies and that their defeat was inevitable, steps were taken to decrease the size of JUSMAG, for American military personnel associated with it did not have the diplomatic immunity accorded attachés. With the certainty that Nanking would fall in the immediate future and with the disorganized

condition of the Chinese armies, its period of usefulness had passed and orders were issued for its removal from China. On December 18 in a telegram to the Department of the Army General Barr stated in part: "Marked by the stigma of defeat and the loss of face resulting from the forced evacuation of China, north of the Yangtze, it is extremely doubtful if the National Government could muster the necessary popular support to mobilize sufficient manpower in this area (South China) with which to rebuild its forces even if time permitted. Only a policy of unlimited United States aid including the immediate employment of United States armed forces to block the southern advance of the Communists, which I emphatically do not recommend, would enable the Nationalist Government to maintain a foothold in southern China against a determined Communist advance. . . . The complete defeat of the Nationalist Army . . . is inevitable."]

[General Barr summarized his views of the causes for the Government's defeat as follows:]

Many pages could be written covering the reasons for the failure of Nationalist strategy. I believe that the Government committed its first politico-military blunder when it concentrated its efforts after V-J Day on the purely military reoccupation of the former Japanese areas, giving little consideration to long established regional sentiments or to creation of efficient local administrations which could attract wide popular support in the liberated areas. Moreover, the Nationalist Army was burdened with an unsound strategy which was conceived by a politically influenced and militarily inept high command. Instead of being content with consolidating North China, the Army was given the concurrent mission of seizing control of Manchuria, a task beyond its logistic capabilities. The Government, attempting to do too much with too little, found its armies scattered along thousands of miles of railroads, the possession of which was vital in view of the fact that these armies were supplied from bases in central China. In order to hold the railroads, it was also necessary to hold the large cities through which they passed. As time went on, the troops degenerated from field armies, capable of offensive combat, to garrison and lines of communication troops with an inevitable loss of offensive spirit. Communist military strength, popular support, and tactical skill were seriously under-estimated from the start. It became increasingly difficult to maintain effective control over the large sections of predominantly Communist countryside through which the lines of communication passed. Lack of Nationalist forces qualified to take the field against the Communists enabled the latter to become increasingly strong. The Nationalists, with their limited resources, steadily lost ground against an opponent who not only



shaped his strategy around available human and material resources, but also capitalized skillfully on the Government's strategic and tactical blunders and economic vulnerability.

Initially, the Communists were content to fight a type of guerrilla warfare, limiting their activities to raids on lines of communication and supply installations. The success of their operations, which were purely offensive, instilled in them the offensive attitude so necessary to success in war. On the other hand, the Nationalist strategy of defense of the areas they held, developed in them the 'wall psychology' which has been so disastrous to their armies. As the Communists grew stronger and more confident, they were able, by concentrations of superior strength, to surround, attack, and destroy Nationalist units in the field and Nationalist held cities. It is typical of the Nationalists, in the defense of an area or a city, to dig in or retire within the city walls, and there to fight to the end, hoping for relief which never comes because it cannot be spared from elsewhere. The Chinese have resisted advice that, in the defense of an area or a city, from attack by modern methods of warfare, it is necessary to take up positions away from the walls where fire and maneuver is possible. Further, they have been unable to be convinced of the necessity for withdrawing from cities and prepared areas when faced with overpowering opposition and certain isolation and defeat, while the opportunity still existed for them to do so. In some cases their reasons for failure to withdraw and save their forces were political, but in most cases, they were convinced that by defensive action alone, they could, through attrition, if nothing else, defeat the enemy. Because of this mistaken concept and because of their inability to realize that discretion is usually the better part of valor, large numbers of Nationalist troops were lost to the Government.

It must be understood that all through the structure and machinery of the Nationalist Government there are interlocking ties of interest peculiar to the Chinese—family, financial, political. No man, no matter how efficient, can hope for a position of authority on account of being the man best qualified for the job; he simply must have other backing. In too many cases, this backing was the support and loyalty of the Generalissimo for his old army comrades which kept them in positions of high responsibility regardless of their qualifications. A direct result of this practice is the unsound strategy and faulty tactics so obviously displayed in the fight against the Communists.

Cooperation among and coordination of effort between the Armed Forces leaves much to be desired. The Ground Forces, being the old and dominant arm, is the source from which the large majority of top military positions are filled. These officers, mostly old and loyal con-

temporaries of the Generalissimo, have little or no knowledge of the newer arms: the Air Force and the Navy. The Chinese Air Force, consisting of  $8\frac{1}{3}$  groups, is far in excess of what a country bereft of gold credits can support. Although it has among its personnel over five thousand United States trained pilots, it accomplished little, other than air-lifting troops and operating its transports for personal gains. There was an ever present reluctance to take a chance on losing equipment or personnel, which was clearly reflected in their constant refusal to operate at other than high altitudes. There was an ingrained resentment in the Chinese Air Force against killing Chinese Communists who had no air support. All of these factors are important and unfortunate because the Chinese Air Force, unopposed, could have rendered invaluable support in ground operations had its capabilities been properly employed. From a military viewpoint, the case of the Navy is not so important since its employment, right or wrong, could have had little effect on the final outcome; all operations were land based. From an economic viewpoint, the Navy could have been of inestimable value in suppressing smugglers in Hong Kong-Canton waters had it been willing to suppress and not participate. It was completely relieved of this mission in March 1948, and reputedly millions of dollars in customs revenue continue to be lost to the Government.

It might be expected that the Communists, being Chinese themselves, would also suffer from these faulty Nationalist traits and characteristics, and to a certain extent they do, but they have wisely subordinated them and made their ideology of Communism almost a fetish. By means of total mobilization in the areas they control, propaganda, and the use of political commissars within their armed forces, they maintain loyalty to the established order. Their leaders are men of proven ability who invariably out-general the Nationalist commanders. The morale and fighting spirit of the troops is very high because they are winning.<sup>3</sup>

### III. AMERICAN ADVISORY GROUPS IN CHINA

#### LEGISLATION AND AGREEMENTS

As of V-J Day American forces in China numbered approximately 60,000 men. Though redeployment to the United States was commenced soon thereafter, Headquarters, United States Forces China Theater, and its component units continued to provide assistance to the Chinese Government, planning and implementing the redeploy-

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<sup>3</sup> This concludes the quoted portion of General Barr's report.



ment of the Chinese Nationalist Army, supervising the turnover to the Chinese of military supplies, and conducting and assisting in the repatriation of Japanese forces. Simultaneously the Marines in North China were repatriating Japanese and maintaining control for the Government of the lines of communication in that vital area, a service of great military significance in view of the fact that all available Chinese and American facilities were being strained to enable the Chinese to occupy other key areas and in view of the logistical difficulties which would have faced the Chinese if they had occupied this area at an early date and depended for supplies on Central China, to which no railroad connections had been opened.

Concurrent with this assistance plans were prepared for the formation of military advisory groups which had been requested by the National Government. Annex 170 sets forth a memorandum of conversation between President Truman and Dr. T. V. Soong on September 14, 1945, in which the question of American military assistance to China was discussed. It was the original intention of the United States in 1945 that military assistance would be designed to assist in the reorganization and consolidation of the various Chinese armies under the terms of general principles which had already been agreed to by the National Government and the Chinese Communists. This whole concept was implicit in the mission of General Marshall. It was the hope at that time that civil strife could be avoided and, therefore, no American military assistance could, as President Truman stated, be diverted to fratricidal warfare or to support undemocratic administration.

With this in view the Nanking Headquarters Command was activated on February 20, 1946. On February 25, 1946, the President issued a directive to the Secretaries of State, War, and the Navy as follows:

"The Secretaries of War and the Navy are authorized and directed to establish jointly a U. S. Military Advisory Group to China. The strength of the Advisory Group shall not exceed one thousand officers and men except as authorized by me in the light of possible future political and military developments.

"The Secretary of State will conduct the necessary negotiations with the Chinese Government.

"The object of this Advisory Group will be to assist and advise the Chinese Government in the development of modern armed forces for the fulfillment of those obligations which may devolve upon China under her international agreements, including the United Nations Organization, for the establishment of adequate control over liberated

areas in China, including Manchuria, and Formosa, and for the maintenance of internal peace and security."

Pursuant to the receipt of this directive the military services moved to formalize the status of the advisory groups as such and to assign them appropriate missions. There were initially two groups—an Army Advisory Group which included army, air and supply advisers, and a Naval Advisory Group. Legislation was likewise requested in order to provide authorization for their operation after the expiration of the President's wartime powers under which they were initially being established. A bill to provide military advice and assistance to the Republic of China was introduced in the Senate on June 13, 1946, as S. 2337 of the 79th Congress, 2d session. A similar bill was introduced into the House on June 14, 1946, as H.R. 6795. The Committee on Foreign Affairs of the House reported favorably on H.R. 6795, but no other action was taken in the 79th Congress on these bills, both bills dying with the termination of the 2d session of the 79th Congress. A Military and Naval Missions Bill (H.R. 2313 and S. 759, 80th Congress) providing for the detail of such missions to foreign countries was introduced in the succeeding Congress, passing the House but not the Senate, where it was referred to the Senate Armed Services Committee. The Navy obtained legislative authorization for the establishment of a Naval Advisory Group through Public Law 512 of the 79th Congress, which authorized the transfer of 271 ships and craft to China and the detailing of 300 navy personnel to assist the Chinese in naval matters. Pending the procurement of legislative authorization for the other components of the advisory group and pending decision on the advisability of establishing joint or separate groups, it was determined not to negotiate a formal agreement with the Chinese Government. Informal discussions, however, resulted in a draft agreement which governed Sino-American relations in this regard during the existence of the groups. On September 17, 1948, advisory personnel in China were charged with the establishment of a joint advisory group, known as JUSMAG-China, consisting of Army, Navy, and Air units, together with a Combined Services Group and a Joint Advisory Staff. JUSMAG was formally activated on November 1, 1948; because of the deteriorating military situation its removal from China was ordered prior to the end of the year.

#### THE JOINT ADVISORY STAFF

In order to coordinate the activities of the separate components of JUSMAG in their dealings with various agencies of the Chinese Government, the Joint Advisory Staff was established. This group was charged with the responsibility of reviewing advisory papers being



transmitted to the Chinese Minister of Defense, and of providing advice to appropriate officers of the Ministry of Defense and of the Supreme Staff. In view of the conflicting lines of authority which had existed under the duplicating divisions of the old National War Council, the Chinese Minister of National Defense faced a difficult problem in establishing clearly defined operating procedures. Among the projects embarked on by the Joint Advisory Staff were the forwarding of advice on the operations and functions of the Supreme Staff, and on the various personnel, intelligence, training and supply activities which it supervised in its overall direction of all the armed forces of China.

#### THE NAVAL ADVISORY DIVISION

The Navy Advisory Group, and its successor, the Naval Advisory Division of JUSMAG, were primarily concerned with assisting the Chinese Government in naval matters, training Chinese crews to man the ships transferred under Public Law 512 (131 such ships were eventually transferred) and rendering the Chinese technical advice on the operation and maintenance of these vessels. The activities of the group were designed to place the Chinese Government in a better position to protect and improve the safety of navigation in its waters and to make it possible for the Chinese to assume naval responsibility in that area, particularly with regard to the repatriation of Japanese and the movement of Chinese armies. To accomplish these objectives a Naval Advisory Staff was established at Nanking and a joint advisory organization was initiated through which advice was forwarded to the Chinese Ministry of National Defense. The senior member of this group advised the ranking officers of the Chinese Government on purely naval matters and similar staff advisory relationships existed on all levels of the organization. A training group was established at Tsingtao to form and train Chinese crews which were to operate the ships transferred to the Chinese Navy. This unit provided not only afloat training of crews but also conducted shore-based schools. It assisted the operating units of the Chinese Navy in maintenance, repair, and spare parts procurement and in every way had an immediate and direct influence on the indoctrination and training of the Chinese Navy. Other units of this group were established at Shanghai to assist in the activities being carried on at the Kiangwan Dockyard, and at Canton to assist in anti-piracy and anti-smuggling operations. A final report prepared by Naval Advisory Division personnel listed among the accomplishments of the Naval Advisory Mission the following, to name only the most significant:

The initial rehabilitation of the Chinese naval force and the introduction of modern naval thought into the various levels of the Navy

with a resultant reorganization of Chinese Naval Headquarters; introduction of an elemental operating system, an operating corps, and an officer training program for this corps; establishment of a modern naval medical service; assistance in the organization of systematic personnel procedures; establishment of a modern naval training center, and the ultimate training in this center of over 300 Chinese officers and 3,000 Chinese enlisted men.

Since the Chinese Navy was not opposed by a Chinese Communist Navy it was never combat tested, though the assistance provided by the Naval Advisory Group enabled the Chinese Navy to reach operating standards it would not otherwise have achieved. The Chinese Navy did not satisfactorily perform what could have been a major service, the complete interdiction of junk traffic by which Communist forces in Shantung received supplies and reinforcements, nor did it perform satisfactory service in those operations in the Gulf of Chili when by bombardment it could have rendered notable assistance to ground forces engaging the Communists in the Hulutao area.

During the closing months of 1948 and the early months of 1949 there was evidence that the morale of Chinese naval personnel was so low and the will to fight so lacking that Chinese Naval Headquarters had hesitated to permit naval vessels freedom of operations lest they desert to the Communists.

#### THE AIR ADVISORY DIVISION

The Air Division of the Army Advisory Group, forerunner of the Air Advisory Division of JUSMAG, was established to assist in the modernization of the Chinese Air Force and to provide the Chinese technical advice on the maintenance and operation of such an air force. During the war United States and Chinese air force personnel had been integrated into a Chinese-American Composite Wing of the 14th Air Force, and in combat operations conducted by this unit the Chinese performed creditably. Chinese personnel to man this unit and the post war Chinese Air Force were for the most part American-trained under a program through which, according to the Department of the Air Force, prior to and succeeding V-J Day over 5,000 Chinese received intensive instruction under a United States supervised training program.

During the war transfers of airplanes and other air matériel were initiated in order to provide the Chinese Government with an air force commensurate with its needs. After V-J Day transfers of planes and equipment were continued under a program designed to provide the Chinese with an 8½ group air force, until a total of 936 planes had been made available, the bulk of these after V-J Day. Because of the close wartime cooperation between American and Chinese air force



personnel the establishment of an air force unit in the Advisory Group represented a continuation of certain wartime assistance. After the inactivation of the Chinese-American Composite Wing, United States Army Air Corps cadres were placed with 13 Chinese Air Force units and these advisory units were already in operation, when on February 26, 1946 establishment of a Military Advisory Group was authorized by the President.

Though the ultimate objective of the Air Division was to assist in the development of a modern air force, much of its early activities consisted of giving the Chinese Air Force advice on receiving, storing, and maintaining the vast amounts of United States surplus air equipment made available to it. Simultaneously, steps were taken to lay the groundwork for an air force organization fitted to Chinese needs and capabilities. Work in this regard continued throughout the existence of the Air Division and as experience dictated, changes in organization were recommended.

In August 1946, Air Division teams advising Chinese fighter groups actively engaged in combating the Communists were withdrawn on the order of General Marshall to prevent further involvement in the Chinese civil conflict. Advice and guidance continued, however, on problems such as planning an adequate training system for the Chinese Air Force, establishing an adequate personnel management system, instituting coordinated supply procedures, developing suitable tables of organization and equipment for the Chinese Air Force, and developing proper operational procedures.

Air Division teams were established at certain Chinese Air Force bases such as Peiping, Chengtu and Hankow, and personnel were assigned to provide appropriate advice to units such as the Chinese Flying School at Hangchow and the Air Technical Service Command at Shanghai.

Despite the advisory assistance provided, the Chinese Air Force never attained satisfactory operating standards. Bombing operations were usually conducted from such an altitude that accurate bombing of military targets was impossible; strafing of enemy troops was carried on at altitudes of from 1,500 to 2,000 feet; supply drops to beleaguered garrisons and units were made from such altitudes that considerable quantities of the supplies dropped fell into the hands of the beseiging Communists.

In the final report prepared by the Air Advisory Division the following comments were made:

"Without a doubt China's ravaged economy cannot support an establishment based on 81½ tactical groups even if the present exorbitant personnel overhead were pared in half. Without some economic

recovery it cannot afford an air force of any size. Their air plans appear to take no cognizance of national economy nor do they indicate a sense of values with respect to the internal economy of the air force. A big organization for face-building purposes is uppermost in their thinking. Aid through low cost support or outright grants encourages this prodigality.

"The CAF has questionable value as a military ally mainly because of their inability to conduct their administrative and logistical functions satisfactorily. It will take years of basic and specialized education to correct this deficiency. Direct supervision by U. S. personnel down to the departmental level in squadrons would be necessary to produce acceptable results. Their fighting qualities in the civil war have been of an extremely low order. However, during the Japanese War when they had a cause in which they believed, they performed creditably while following American flight leaders.

"An advisory program is inextricably tied to an aid program. Advisors invariably find that aid assists them to accomplish their mission. Advisory groups are used by the recipient nations, purposely or not, as a powerful means of fostering increases or in obtaining favorable action on aid requests. If the recipient requests advice merely to get aid, the advisory relationship is not sound and should not be undertaken. It is believed that China presently falls in this category.

"It is not believed that an objective of 'a China that is militarily strong' can be attained in the foreseeable future even if it is desirable. Therefore an advisory program based on this objective as a consideration is not considered feasible."

#### THE COMBINED SERVICE FORCES ADVISORY DIVISION

The Combined Services Division of the Army Advisory Group, later reorganized under JUSMAG as the Combined Service Forces Advisory Division, was established to advise and assist the Combined Service Forces of the Republic of China in the development of effective supply techniques and procedures.

During the closing year of the war against the Japanese, through the efforts of Headquarters, United States Forces China Theater, United States and Chinese forces in China cooperated closely in the development of an efficient supply system under the direction of a combined Chinese-American staff. Chinese commanders had traditionally been hesitant to commit their forces and equipment to battle since men and rifles lost in combat were usually not replaced, and the commander would find himself without a unit commensurate with his rank. Because of this particular fact, the development of supply



and replacement procedures was necessary in order to instill in commanders a willingness to risk their units in combat. In developing such a supply system during the war, American personnel participated with Chinese in all phases of supply work. The establishment after V-J Day of a Combined Services Division represented, therefore, a continuation of wartime assistance. This group, among other contributions, rendered the following assistance:

Provision of advice on the development of an organizational pattern for a Chinese supply system;

Provision of advice and assistance on the organization and conduct of training courses for all service schools;

Provision of advice and assistance in the inventory, requisitioning, withdrawal, and disposition of United States surplus equipment sold to China and being handled by the Board of Supply of the Executive Yuan;

Provision of advice and guidance for such vital activities as the medical, finance, ordnance, signal, transportation, and engineering services.

#### THE GROUND FORCES ADVISORY DIVISION

The most important of the various components of JUSMAG and its predecessor organizations was the Ground Forces Advisory Division, successor to the Army Advisory Group which was established to provide an organization to advise and assist the Chinese Ground Forces. In this connection a brief review of the activities along these lines being conducted under the direction of Headquarters, United States Forces China Theater, as of V-J Day is pertinent. In order to develop a Chinese Army capable of effective operations against the Japanese, General Stilwell had embarked on a program initially conceived on a more limited scale by the Magruder Mission, to train and equip 39 ground-force divisions. Under his direction five such divisions were trained and equipped in Burma, subsequently performing creditably in combat, and an organization was established in China to carry on similar activities there, though little had been accomplished in the latter area because of the limited military supplies being flown over the hump. Under General Wedemeyer the 39-division program was carried forward. The additional number of personnel and the added tonnage of supplies arriving in China made possible its rapid implementation. Another and by far the most significant factor in its successful development was the close cooperation which existed under the direction of Headquarters, United States Forces China Theater, between Chinese and American personnel on all levels. This mutual cooperation was of significance since the prime problem facing

United States forces in China under the command of General Wedemeyer was the combination of Chinese manpower and resources with American equipment and training to develop military forces capable of meeting the Japanese in combat.

In order to assist in the development of integrated plans between the Chinese and American units then operating in China, joint Chinese-American staff meetings were held at Chungking and at other appropriate centers, though command of the forces of each country remained solely with the officers of that country. Schools were established to prepare Chinese military personnel for all phases of work with ground forces operations. United States officers were assigned to ground units to give operational advice on all levels and under all conditions, including active combat. This program to train and equip Chinese divisions progressed so satisfactorily that by mid-August 1945 Chinese forces were concentrated in South China for a major offensive operation—which was overtaken by V-J Day prior to its initiation. Thus, as of V-J Day, there existed effective United States-Chinese cooperation on all phases of ground force activity.

Following V-J Day United States forces in China continued certain assistance to the Chinese Government, particularly in the redeployment of Chinese armies, the repatriation of the Japanese, and in effecting arrangements for the transfer of surplus military material. The Ground Forces Section, Nanking Headquarters Command, was the agency originally established to continue providing advice and assistance after the inactivation of major United States headquarters. This section, organized in April of 1946, was succeeded by the Army Advisory Group. Initially the advice and assistance which it could render were limited to the organization and functioning of Chinese Ground Forces Headquarters, and to the establishment and operation of schools. The Division was not authorized to make recommendations concerning the organization or equipment of ground force units, nor to carry on advisory activities directly involved in the training of the Chinese units. These functions were the responsibility of the Peiping Executive Headquarters in connection with its efforts to reduce the size of the Nationalist and Communist armies under the terms of the Tripartite Agreement. Following the inactivation of the Peiping Executive Headquarters, the restriction on advice concerning the organization and equipment of Government units was lifted. The prohibition against advisory activities directly concerned with the training of Chinese Government units and the operation of training centers was relaxed later to permit Army Advisory participation in various Chinese Ground Forces training centers. The prohibition against participation in training activities north of the



Yangtze River (except for the Cavalry School at Tienhsui and the Army School at Hsuehchow) was never relaxed. Consideration will be given later to the policy determination underlying the decisions not to relax certain of the provisions governing advisory group activities.

In a report prepared by the Ground Forces Advisory Division of JUSMAG immediately prior to its inactivation, the following analysis of projects accomplished and unfulfilled was presented:

"The tangible results of the advice and assistance given to the Chinese Ground Forces during this period are in general terms:

"a. The development of the Ground Forces Headquarters into an organization capable of operating in a barely satisfactory manner.

"b. The establishment of the Ground Forces School system and the operation of the Infantry and Artillery Schools and the Ground Staff College in a fairly efficient manner.

"c. The establishment of the system of Training Centers.

"d. Training of the 204th and 205th Divisions at Taiwan.

"e. A decided improvement in the operation of the Army Military Academy at Chengtu, and its branch Officer Training Classes at Taiwan and Hankow, and in the operation of the Cadre Schools at Taiwan, Nanking, and Canton.

"The principal accomplishment of the Ground Forces Advisory Division during this period was the indoctrination of thousands of Chinese officers with United States principles of organization, with United States staff methods and procedures, and with United States methods of instruction. The results of this indoctrination together with the benefits which may result from the close association of many Chinese officers with United States Army officers cannot be evaluated at this time. Those results would have become increasingly apparent during the next two or three years.

"The Ground Forces Advisory Division did not accomplish those things which it was hoped would be accomplished by the end of 1948. The progress of the Chinese Ground Forces as a whole has not been satisfactory. The following have adversely affected the desired progress of the Chinese Ground Forces to a degree far greater than was expected in the summer of 1946.

"a. The requirements for the prosecution of the civil war.

"b. The continued deterioration of Chinese currency in terms of its purchasing power.

"c. The lack of funds and the consequent lack of equipment, supplies, housing, etc.

"d. The lack of positive 'command pressure.'

"e. The passive and, at times, active resistance to change when that change would reduce the power or prestige of the individual affected.

"f. The fact that each decision was not based primarily on military considerations alone, but was influenced to a considerable degree by 'political' and 'personality' considerations and the desires (at times, almost the demands) of subordinate commanders.

"g. Incompetence of individuals occupying key positions and, until early 1948, the physical absence from Ground Forces Headquarters of the Chief, Chinese Ground Forces.

"h. The failure of commanders of all echelons to delegate authority and responsibility to their staffs and subordinate commanders."

The activities of the Group most directly concerned with assisting the Chinese Government in its civil strife were those connected with advisory group participation in Chinese training centers. In July 1947 the Chinese Ministry of National Defense issued a directive establishing a ground force training center in Taiwan and in December 1947 it ordered additional centers established. In October 1947 the Department of State informed the War Department that it agreed to the participation of the Army Advisory Group in the training activities of the Taiwan divisional training center.

The memorandum to the War Department setting forth the position of the Department of State read as follows:

"The Department of State is prepared to agree to participation by the AAG in the training center at Takao provided that (1) AAG will not participate in any other similar training center without prior concurrence of the Department; (2) the assistance in the form of materials supplied by the U.S. will be limited to training aids; (3) every effort will be made to minimize publicity to the effect that this action constitutes direct U. S. participation in the civil war; (4) arrangements be made that U. S. officers concerned shall be briefed by the Embassy on the political situation in Formosa to the end that they will so conduct themselves as to avoid AAG and the training center from being drawn into the controversy which has developed between the island inhabitants and the authorities of the Central Government."

The 205th Chinese Division was selected as the first unit to be trained in this center, but it was not until the middle of November that arrangements for this had been completed by the Chinese. The first group of American advisers arrived in Taiwan for permanent duty in December 1947. In March 1948 authorization was granted for advisory group participation in the training activities of the Nanking Training Center, and in July further authorization was granted for participation in the training work of Chinese Army Centers at Canton, Hankow, and Chengtu. Limited participation in the Hsuehchow Center was likewise authorized.



The final report of the Ground Forces Advisory Division contained an evaluation of the work of these training centers, the substance of which is given in the following paragraphs:

Of these Chinese training centers, only the one at Taiwan produced satisfactory results. In this center two divisions, the 204th and 205th, were highly trained according to Chinese standards, and two additional ones, the 201st and 206th, received training which was average by Chinese standards. At Canton the 154th division likewise received training judged average by Chinese standards, but unsatisfactory by American standards. These were the only significant results produced, although the center at Nanking made a valuable contribution in the training of cadres for certain of the other training centers. Operations were handicapped by a lack of funds and technical equipment, the failure to relieve units south of the Yangtze to participate in training activities, and the failure of the Chinese to attempt to implement effectively this program despite the Generalissimo's directive that a modern training and replacement system would be operated. The Nanking center, primarily designed to train individual replacements for divisions which could not be relieved from front line duty to receive training, was likewise handicapped by the indifference of the Chinese to this need and their unwillingness to implement the Generalissimo's directive initiating such a training program. Though over 17,000 replacements were passed through the center, none received any significant degree of training owing to the unwillingness of the Chinese to leave them in the center for any appreciable period. The failure of the military to carry out the Generalissimo's directive in this instance was typical of many similar situations where orders issued by senior Chinese officers after consultation with advisory group personnel were successfully evaded by subordinate officers.

Though the center at Hankow could have accomplished its mission of training individual replacements, it suffered from the same difficulty as the one at Nanking. The Canton training center, primarily designed to train cadres, was ordered established in December 1947. In the next two to three months Chinese staff members were assigned, but prior to the end of May little else was accomplished, when officers from the advisory group were permitted to inspect the area, which proved completely unsuited for the projected activities. The center was moved to Canton in June and on July 1 American advisers departed to assume duties there. A preliminary cadre training course initiated in early August of 1948 was highly successful due to the fact that 19 American trained instructors were available. However, this school did not start regular operations until the first of November because the three divisions concerned did not furnish their cadres

until that time, nor were the cadres ever made available simultaneously for full and effective training.

The unsatisfactory results which attended the efforts of United States advisory personnel to develop in the Chinese Army effective training and replacement procedures may be attributed in part to the Chinese attitude toward replacements and their training. Recruitment was at all times disorganized. Separate commanders were frequently authorized to go into an area to procure "recruits," generally conscripts or men impressed into duty. Provincial governors who had their own replacement problems gave little heed to Government levies. Conscripts enroute to army centers would frequently be impressed by local commanders. Those who did arrive at army centers were frequently assigned immediately to units without further training. Attempts to modernize this system met with widespread opposition, and it was at one time reported that field commanders had demanded that no drastic change be made in the Chinese system. At various times in many of the Ground Forces Advisory Division projects it became apparent that the lack of positive command pressure made successful operations difficult, if not impossible. In view of the resistance to change to more efficient procedures which would have reduced the prestige of individuals affected, this lack of command pressure doomed many projects to incompleteness. Operations were influenced therefore to a large degree not by military necessity but by political and personal factors, and the desires of the individuals concerned rather than the basic military needs of the country.

This inability to prod the Government into effective action where personal interests were involved was accentuated by the incompetence of the individuals occupying high positions in the military chain of command. Advisory activities were further complicated and hindered by the fact that the Chief of the Ground Forces, General Ku Chung-tung, was not present at Ground Forces Headquarters but remained in command of a field unit. No decision could be made by his senior officers without prior reference of the question to him.

Similar unsatisfactory results met the advisory group's efforts in May 1948 to encourage the Chinese in the establishment south of the Yangtze of a 38-division strategic reserve to be composed of divisions not involved in combat, which were to be trained to high standards for use against future eventualities. Lack of adequate planning by appropriate Chinese headquarters for personnel and transportation, and failure to develop the training centers previously described hindered any effective action on this plan. When military conditions became critical in October 1948 the Government, recognizing the need for such a strategic reserve force, requested further assistance from the advisory



group, but attempts to initiate action on this program were overtaken by the rapidly developing military situation. In the final advisory group report it was noted that because of the Chinese characteristics of not agreeing to decentralized authority, unwillingness to place responsibility on command levels, and a tendency to compartmentalize all work, a large number of advisers would be required to carry such a project forward. The conclusion set forth in this report was that effective advisory results in such a situation depended on advisory assistance and indirect control at least down to the regimental level.

#### COMPARISON OF AID TO CHINA WITH AID TO GREECE

As it became evident to all observers that the Communists were winning the war, despite American aid and assistance to the National Government in the form of the advisory mission and transfers of equipment and grants, the role of the advisory groups was reviewed. A frequently recurring suggestion was that it be increased in size, that considerable additional quantities of military equipment be made available for transfer to the Chinese through it, and that the directive governing its operations be relaxed, to permit more direct United States involvement in the training and operations of Chinese army. The most frequently raised suggestion was that China be put in the same category as Greece with respect to the receipt of military aid and advisory assistance.

In this connection a brief comparison of the commitments involved if this had been embarked upon is pertinent. Greece, a country of about 51,000 square miles, has a population of 7.4 million, approximately that of greater Shanghai and its environs. China is comprised of approximately 450 million people. In Greece, armed forces of between 150,000 to 200,000 men have been opposing guerrilla units containing approximately 20,000 effectives, holding no cities or centers of population and being restricted for the most part to mountain border areas. It is recognized, however, that the Greek guerrillas received supplies from the Communist countries to the north of Greece. The Chinese Nationalists by late 1947 had a superiority over the Communists of only about  $2\frac{1}{2}$  to 1, with  $2\frac{1}{2}$  to 3 million Government troops facing 1 to  $1\frac{1}{2}$  million Communists, who at that time controlled approximately one fourth of China's lands and people. To have supported the Government's military operations in China to the same comparative degree as those in Greece were supported would have required an advisory group of many thousands, unpredictably large amounts of equipment, and the involvement of United States advisers in the direction of modern large-scale war, and rather than representing a calculated risk it would have represented an incalculable

risk. To have embarked on such a project this Government would have justly felt that there should have been more assurances of possible success than had been provided by the previous record of the Chinese Government in its military operations. There was no reason to think that the furnishing of additional military assistance would substantially alter the pattern of military developments in China unless a great number of Americans were involved, possibly in actual combat, and unless this Government were prepared to underwrite permanently the success of the Chinese Government's military operations. Nor was there any evidence that the means were in sight to enable the Chinese Government, even with extensive United States economic assistance, to delay more than temporarily the rapid deterioration of economic and political conditions. Further involvement of this nature would, however, have been most acceptable to the Chinese Government.

In this connection it should be noted that during consideration by the Congress of an aid program for China in 1948, the House in the enabling bill placed China in the same category as Greece with regard to the receipt of military aid. The Senate Foreign Relations Committee, however, rewrote the proposed bill, specifically wording the portion dealing with additional aid through grants in order to avoid having China placed in the same category as Greece with respect to military aid.

During debate in the Senate on March 29, 1948, regarding the China aid program, Arthur H. Vandenberg, Chairman of the Committee on Foreign Relations of the Senate, made the following statements:

"The Committee on Foreign Relations wishes to make it unmistakably clear, in this, as in all other relief bills, that there is no implication that American aid involves any continuity of obligation beyond specific, current commitments which Congress may see fit to make. . . . We do not—we cannot—underwrite the future. . . . It is a duty to underscore this reservation in the case of China because we find here many imponderables as a result of the military, economic and social pressures which have understandably undermined her stabilities, and prevented or postponed the internal reforms which even her surest friends readily concede to be not only desirable but essential for the Chinese people and for the Nationalist Government. . . . We cannot deal with the Chinese economy on an over-all basis, as we have done in the European recovery program. China is too big. The problem is too complicated. . . . As in the case of Greece and Turkey, your Committee recognizes that military aid is necessary in order to make economic aid effective. It proposes to make military supplies available, at China's option. For



this or any other purpose, at China's option, a grant of \$100,000,000 is included in the bill. . . . Your Committee believes, as a matter of elementary prudence, that this process must be completely clear of any implication that we are underwriting the military campaign of the Nationalist Government. No matter what our heart's desire might be, any such implication would be impossible over so vast an area. Therefore, for the sake of clarity, we prefer to leave the initiative, in respect to these particular funds, in the hands of the Nationalist Government. . . . Under another law, the United States will continue to furnish military advisers to the Government of China at her request. . . . Their capacity is advisory only. Nothing in the pending bill alters these limitations in any aspect. . . . We have undertaken to write this new provision into the law in a fashion which **at least commits us to make military cooperation on our own responsibility.**"

During the same debate Senator Connally said:

"There is an item of \$100,000,000 which is not earmarked. . . . It is in the nature of an outright grant to China for her use, under her own responsibility for whatever great and critical need may arise. There is not a word in the bill regarding military supplies or military aid. It is, of course, entirely probable that the \$100,000,000 grant may, if the exigency should arise, be utilized by the Central Government of China for the purchase of munitions, equipment and arms. . . . This measure is the best plan or device we could bring about in the Committee to extend aid to China, without making hard and fast commitments which we did not feel it was wise to make."

The Greek-Turkish proviso was deleted by the Congress prior to the passage of the enabling bill. Following passage of the enabling legislation the House of Representatives inserted into the appropriation bill passed by it on June 4, 1948, the proviso that aid being extended to China be placed in the same particular category as that being extended to Greece and Turkey. On June 15, 1948, the Senate approved certain amendments to the foreign-aid appropriation bill, 1949, one of which removed the Greek-Turkish proviso contained in the House bill. On June 19, 1948 the foreign-aid appropriation bill was sent to conference. The conference report shows that the total amount of aid to China was reduced from \$463 million to \$400 million, the Greek-Turkish proviso was removed, and the \$125 million grants were thus to be made available to China in accordance with section 404 (b) of the China Aid Act of 1948. The Foreign Aid Appropriation Act, 1949, was then passed by the Congress on the same day.<sup>4</sup>

<sup>4</sup> For an explanation of these various figures, see chapter VIII.

## IV. MILITARY MATÉRIEL AND SERVICES PROVIDED THE CHINESE GOVERNMENT SINCE V-J DAY<sup>a</sup>

### SUMMARY

Any assessment of military aid provided to the Chinese Government by the United States since V-J Day must take into account the fact that no dollar value can be put on three of the most vital forms of aid—that rendered by Headquarters, United States Forces China Theater, in planning the redeployment of the Chinese Army and the repatriation of the Japanese, aid rendered by the Marines in North China in occupying key areas and maintaining control for the Government of essential lines of communication, and aid provided by the advisory groups.

Apart from these forms of aid, the American Government since V-J Day has authorized military aid for the Chinese Government in the form of grants and credits totaling approximately 1 billion dollars. During this same period an additional 1 billion dollars of economic aid has been authorized. It was, of course, inevitable that economic assistance had indirect military value.

There is set forth in annex 172 a detailed account with accompanying tables of the various categories of this American aid. Among the most important of these were 781 million dollars of post-V-J Day lend-lease aid, including sufficient matériel to complete the remaining 50 percent of the wartime program designed to equip 39 Chinese divisions, 101 million dollars of surplus military equipment including over 300 aircraft and very large quantities of ammunition, and 125 million dollars under the China Aid Act of 1948, expended largely for military equipment during 1948 and 1949.

It is evident from a review of these transfers of military equipment that American aid to the Chinese Government since V-J Day in the form of matériel and services has been extensive. It has likewise been continuing except for that period starting during General Marshall's mediation efforts when there was a ban on the export of munitions from this country and its Pacific bases.

### SECRETARY MARSHALL'S TESTIMONY ON THE 1946 EMBARGO

The prohibition on the export of munitions from the United States to China was placed at a time when the truce between the armies of the Chinese Government and the Chinese Communists was breaking down and hostilities were increasing on a wide scale. In this connection

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<sup>a</sup> See annex 171 for a study of American military matériel and services provided to the Chinese Government since V-J Day.



Secretary Marshall's testimony before the House Committee on Foreign Affairs on February 20, 1948, is of interest. Certain portions of the testimony follow:

"Mr. VORYS. As I understand it, we had an embargo for 10 months on shipment of arms to China and then the ammunition that we did authorize to be shipped, which they purchased, has not gotten to the troops yet. Now, why is that?

"Secretary MARSHALL. Do you mean the original embargo and then the later developments?

"The embargo was in August, 1946, and the release was in May of 1947.

"Mr. VORYS. That is about 10 months.

"Secretary MARSHALL. Yes.

"Mr. VORYS. As I understand it, the so-called generalissimo ammunition which was authorized to be shipped has not gotten to the troops yet. I am informed that part of it had not left the United States. Now, why is that? They cannot fight without ammunition.

"Secretary MARSHALL. That is quite evident.

"This particular matter is a shipping proposition. Mr. Butterworth can give you some of the details but I can state some of the things offhand.<sup>5</sup>

"In the first place, the embargo was placed in August, I think, of 1946, by me, because at that time the situation was threatening to break down entirely. The fighting in north China had been held pretty largely in abeyance since the agreements reached on January 10, 1946, except in Manchuria, where a new focus of fighting had developed.

"In the endeavor to mediate this, and prevent its spreading all over North China, we were put in the position of acting in a mediatory position on the one hand and shipping in military supplies on the other. At that time the Chinese Government had sufficient munitions for their armies and there was no embarrassment to them.

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<sup>5</sup> Details were given in the following letter of Feb. 24, 1948, from Secretary Marshall to Representative Charles A. Eaton:

"You will recall that in the course of the public hearings on February 20, 1948, before the Foreign Affairs Committee of the House of Representatives on the China aid bill Mr. Vorys queried whether the Chinese Government had received the so-called generalissimo (7.92) ammunition sold to the Chinese Government by the Foreign Liquidation Commissioner under a contract dated June 25, 1947.

"It has been ascertained from the Department of the Army that the Chinese Government shipped this ammunition from Seattle to China on July 14 and August 11, 1947. The first shipment represented slightly more than one-third of the ammunition and the second shipment covered the balance.

"Would you please be so good as to apprise Mr. Vorys of this information and to incorporate it in the record of the hearings."

"There were incidents, such as the explosion of the dump in Shanghai, and more particularly the very heavy reported losses of munitions to the Communist forces by defeats suffered in the field by the Government forces. When the release date was given which was effected by taking off any refusal to grant export licenses—

"Mr. VORYS (interposing). I may have used the word 'embargo' improperly.

"Secretary MARSHALL. It was in effect an embargo, on military supplies. There were amendments to that in relation to spare parts for airplanes, and items of that sort.

"Of course, there was a great deal that was coming in through the surplus property transactions, to the degree that we could reach a settlement with the Chinese authorities who were negotiating the surplus property agreements.

"Then we come to the period in May, when that export license embargo was removed. Since that time I think there was only one important commercial contract made by the Chinese Government."

The prohibition on the export of munitions from the United States or its Pacific bases to China became effective in the United States on July 29, 1946, and in the Pacific in mid-August 1946. On October 22, 1946, the ban was modified to permit the Chinese to purchase civilian end-use items under the 8½ Group Program for the Chinese Air Force and on October 31, 1946, the Far Eastern field office of the OFLC<sup>6</sup> was authorized to notify the Chinese Government that it was ready to negotiate the sale of such civilian end-use items. The Chinese informed the OFLC that they were interested in procuring these items only if eventual provision of items for this program was likewise assured, though civilian end-use items would have been valuable in the maintenance and operation of transport planes and airport installations. The Chinese concluded no contracts covering these items until over a year later on November 6, 1947.

In April and May 1947, prior to the lifting of the ban on the export of arms and ammunition, the United States Marines turned over (abandoned) to the Chinese Government forces in North China the considerable quantities of small arms and artillery ammunition mentioned in annex 171. These and similar transfers continued during the summer months until by early September approximately 6,500 tons of ammunition had been transferred at no charge to the Chinese.

On May 26, 1947, the Secretary of State directed that the prohibition on the issuance of export licenses covering the shipment of arms and ammunition be removed.

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<sup>6</sup> Office of the Foreign Liquidation Commissioner.



There is set forth in annex 173 a description of the principal contracts for surplus military equipment and commercial contracts which the Chinese Government concluded during the year following the lifting of the embargo. As will be noted these contracts covered very considerable quantities of arms, ammunition and combat planes.

#### AMERICAN EQUIPMENT CAPTURED BY THE CHINESE COMMUNISTS

Much of the equipment furnished by the United States to China prior to and after V-J Day has fallen into the hands of the Communists—the greatest losses starting in mid-September 1948, though substantial losses had occurred before that time. In a report of early November 1948, the Embassy stated that in the battles of Tsinan, the Liaoaning Corridor, Changchun and Mukden, the Nationalists lost 33 divisions, over 320,000 men, including 8 divisions 85 percent United States equipped. Losses of equipment included approximately 100,000 American rifles and 130,000 rifles of other origin, together with large quantities of military matériel. It was indicated that there was virtually no destruction of equipment accomplished by the Nationalists prior to their defeats during the period under consideration.

In early December 1948 the Military Attaché at Nanking reported that "seventeen originally United States equipped divisions have been totally lost—Chinese Communist forces claims are that 70 per cent of United States equipped forces lost by November 2. After the fall of Manchuria CSF [Combined Service Forces of Chinese Nationalist Army] high ranking officer told an American officer 80 per cent of United States equipment had been lost by capture and attrition. It is believed the figure of 80 per cent loss of all United States equipment is a sound basis on which to determine amounts lost—of this amount at least 75 per cent exclusive of ammunition has been captured by the Communists." It is now estimated that in the 4½ months from the fall of Tsinan in September to the fall of Peiping at the end of January, the Government lost approximately a million men and 400,000 rifles. Losses since the end of January include those in the Nanking-Shanghai area in April and May. Losses of air force matériel, while not so serious, have occurred, and it is at present known that the Communists have acquired by defection a number of planes of American origin.

The most significant loss of naval equipment was that of the cruiser *Chungking*, transferred to the National Government by the British, though there have likewise been defections of minor naval units.

There is some question as to whether the Russians supplied the Communists with Russian equipment. It is certain, however, that large stocks of Japanese equipment were abandoned in Manchuria in such a way as to enable the Communists to gain possession of them. Charges

have been made in the press that the Russians utilized Japanese equipment from Manchuria to manufacture Japanese-type equipment for the Communists. As indicated previously, of the Japanese stocks in China on V-J Day the Government seized by far the larger portion. Also bearing on the question of equipment is the relative capacity of arsenals operated by the Nationalists and the Communists. Until the Government's military collapse in the fall of 1948, the major arsenals in China and Manchuria were held by the Government—15 major arsenals and 5 subarsenals producing quantities of small arms and small arms ammunition adequate to sustain normal operations of the Chinese Army. The Government also had access to arms markets in foreign countries other than the United States and in the years following V-J Day purchased considerable quantities of military matériel through such sources.

#### ADEQUACY OF THE GOVERNMENT'S MILITARY SUPPLIES

Prior to the defeats suffered late in 1948, the Government enjoyed a marked superiority in equipment over the Communists in all types of equipment. This fact confirms the statements of military observers, including General Barr, that the defeats suffered by the Chinese Nationalist armies were not attributable to a lack of equipment.<sup>7</sup>

General Barr on November 16 reported to the Department of the Army as follows:

"I am convinced that the military situation has deteriorated to the point where only the active participation of United States troops could effect a remedy. It has been obvious to me for some time that nothing short of a United States organization with the authority and facilities available to you on V-J day including a United States fed and operated supply pipeline could remedy the situation. Military matériel and economic aid in my opinion is less important to the salvation of China than other factors. No battle has been lost since my arrival due to lack of ammunition or equipment. Their military debacles in my opinion can all be attributed to the world's worst leadership and many other morale destroying factors that lead to a complete loss of will to fight. The complete ineptness of high military leaders and the widespread corruption and dishonesty throughout the Armed Forces, could, in some measure, have been controlled and directed had the above authority and facilities been available. Chinese leaders completely lack the moral courage to issue and enforce an unpopular decision. . . .

"I do not believe that the United States should advise or assist in any way such a [coalition] government, with its Communist domi-

<sup>7</sup> See annex 174.



nated Armed Forces, and recommend, that in this event, JUSMAG be withdrawn in accordance with plans outlined . . . [on] 13 November. . . .

"The Generalissimo has lost much of his political and popular support. It is unknown to what extent the nation would support his attempt to continue the present government in a new move. It is believed that such a move will only delay the end of the war and that the Communist forces will eventually overwhelm the government wherever it locates itself. This will occur before the Government, even with United States assistance, can train, equip, and put into the field sufficient forces to stem the tide. For this reason unless all-out United States military assistance, including employment of United States Forces, which I certainly do not recommend, is given the government in its new location, I recommend that JUSMAG be withdrawn in accordance with present plans."

In the final report of JUSMAG the portion dealing with the 125 million dollar grants contains this statement: "In general troops in combat have had adequate supplies of weapons and ammunition, and their reverses are attributable to other causes than lack of equipment."

## CHAPTER VIII

# The Program of American Economic Aid 1947-1949

The economic and financial assistance given to China by the United States during World War II, beginning with the lend-lease assistance of 1941 has been outlined in chapter I. The problem of additional assistance has been noted in other intervening chapters, especially in chapter VI. The aid in money and supplies given in support of the military efforts of the Chinese Government has been described in chapter VII. This chapter continues the account of economic and financial assistance rendered during 1947, 1948, and the first months of 1949. Before this assistance is described, however, it will be helpful to present a brief survey of the economic situation in China in 1947.

## I. THE ECONOMIC SITUATION IN 1947

### INTERNAL ECONOMIC FACTORS

Fundamental in the situation which caused the United States Government to press for comprehensive reforms was the increasingly serious economic situation during the first half of 1947. Mention has previously been made of the accelerating pace of inflation which was occasioned primarily by the financing of large Government budgetary deficits with new currency notes. The domestic price level in China had risen steadily throughout the war with Japan. This process had continued without any real check through 1946. Indeed, the rate of price increases had far outstripped the rate at which new currency was being issued, a signal that public confidence in the monetary unit had fallen significantly.

This continuing depreciation in the value of the Chinese currency was of course a matter of concern to the responsible officials of the National Government. Through 1946 and into 1947, the Government sought to maintain control of the inflationary process by open market sales of gold from official reserves. This provided opportunities, of which advantage reputedly was taken frequently, for collusion



between informed Government officials and speculators. While the Government's absorption of currency by means of gold sales undoubtedly allayed somewhat the rate of price increase, the policy had no effect upon the basic inflationary forces, while it dissipated the Government's foreign exchange assets without a compensating inflow of commodities. Although there was no sharp, panicky decline in the value of the currency through 1946 as in later years, prices rose steadily during 1946 at an average rate of about 12 percent per month. The absence of explosive price rises was due, in large part, to the great influx of imported consumer goods (including UNRRA stocks) in the immediate post-war period.

In January 1947 the Shanghai price level rose at a rate well above the 1946 average and in early February there occurred a violent upheaval in the Shanghai money market, marked most spectacularly by a rise in the price of the United States dollar in terms of C. N. C. (Chinese National Currency), from approximately 7,700 to 18,000. This "crisis" apparently was brought on by a wave of speculative activity in Shanghai rather than by the introduction of any important new factor. It came, however, as a severe shock to the National Government and was a factor contributing to the resignation in March of the Prime Minister, Dr. T. V. Soong. The Government's action, which came promptly, was drastic and initially effective. It outlawed speculative activity in gold and foreign exchange, abandoned the gold sales policy, and fixed a new official exchange rate of C. N. 12,000 to the United States dollar. The police measures against exchange and gold speculators were successful only temporarily, as was true in a later experiment of the same nature, but the immediate crisis was in fact surmounted.

#### CHINESE REQUESTS FOR AMERICAN AID

It was during this period of inflationary upsurge that the National Government renewed its requests for American aid. On February 4, Prime Minister Soong called on the Ambassador to express his concern and alarm over the deteriorating economic situation. On February 6, he gave to the Ambassador an *aide-mémoire* dealing directly with the need for American financial aid:

"I am not trying to be an alarmist. Last summer when people were freely predicting that economic collapse would come in a matter of weeks, I told General Marshall and yourself that it would be a question of many months before the eventuality had to be faced.

"Even as General Marshall was leaving, I expressed the hope that although the economic situation in China is particularly difficult to predict and while 1947 will be a year of terrific difficulties, it might be

possible to hold through because there were then visible signs of improvement particularly in exports and in prospects of increased agricultural production. The rapid turn for the worse during the last few weeks as evidenced by the figures I have given you have radically altered the picture.

"We had all hoped that we would not have to approach the United States Government for financial assistance until the State Council and the Executive Yuan have been reorganized. The economic situation, however, has forced our hands.

"In fact, the economic situation has led the minor parties to sit on the fence, as they would naturally not like to be identified with a government that might collapse. Moreover, this situation has undoubtedly stimulated the Communists to greater efforts to weaken the government and refuse to be in a conciliatory mood.

"I am convinced that only one thing will steady the economic situation and improve the political outlook and that is some concrete form of American assistance and support. Perhaps the simplest, most helpful form of assistance would be an immediate credit of \$150 million for cotton or cotton and wheat for a term of ten years as it would immediately favorably affect our balance of payments, secure the withdrawal of fapi<sup>1</sup> as the products are sold, assure the people of concrete American assistance. Politically it will encourage the wavering elements in the minor parties to join the government, and it would encourage the progressive members of the Government to press forward for a speedy reorganization. A smaller sum than the figure mentioned will not have the effect necessary in this emergency.

"On the other hand the nature of this credit goes as far as possible from any charge of direct aid for military use.

"In addition if someone like Blandford, in whom the Chinese Government had confidence and had given access to all economic information could visit the United States immediately before General Marshall leaves for Moscow, he would be able to explore what further American financial and advisory assistance might be given and under what circumstances this aid might come.

"I consider this particularly important as it would mean continuing aid with a definite program of action for both China and the United States."

At this point the immediately critical aspect of the Chinese economic problem was related closely to the state of domestic public opinion and public confidence within China. As has been noted, the underlying factors in the situation were almost without exception heavily unfavorable: a grossly unbalanced budget, a large deficit on current

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<sup>1</sup> Fapi is a Chinese term for national currency.



balance of payments account, widespread disruption of inland transportation, and a low volume of internal industrial production and trade. On the other hand, China still had official reserves of gold and United States dollars in excess of 400 million dollars. Foreign exchange assets of private Chinese citizens probably were at least as large. Cessation of domestic gold sales by the Chinese Government meant that it would be possible to finance essential imports out of official reserves for a considerable period without depleting these reserves below the point of minimum working balances. The mobilization of privately held foreign exchange assets obviously presented difficult problems, but it could be hoped that some additional resources could be obtained through this means. The National Government still held important industrial assets taken over from the Japanese, notably a large portion of the cotton textile industry. If placed on the market for sale on terms inducive to private buyers, these assets might have provided an important counterinflationary source of revenue while beginnings were being made upon a reform of the hopelessly inadequate budgetary and tax-collecting mechanisms.

Moreover, substantial programs of external assistance to China were either at the peak of their implementation or represented significant potential contributions to the Chinese economy. The UNRRA program for China had got under way slowly. This had been due, in large measure, to the limited absorptive capacity of China, particularly the inadequacy of distribution facilities at Shanghai, and in part to the shipping strike on the west coast of the United States during the fall of 1946. As a result of its delayed implementation, it was clear that the large UNRRA China program would be carried on throughout 1947, considerably beyond the cessation of UNRRA in other areas of the world. Scheduled deliveries of UNRRA goods to China during 1947 amounted to a total value at Chinese ports of close to 300 million dollars.

The Lend-Lease "pipe line" credit from the United States of 51.7 million dollars, and the Canadian credit of 60 million dollars, had been only partially drawn upon by January 1947. Surplus property under the 1946 bulk sale agreement was just beginning to arrive in China. Of authorized Export-Import Bank credits for China, 54.6 million dollars had not been drawn. In April 1947 the United States Maritime Commission authorized the sale to China of surplus war-built merchant vessels on terms involving credits of 16.5 million dollars. All these programs made available a continuing flow of usable and salable resources into the Chinese economy.

Despite the substantial volume of external resources, both Chinese and foreign, available to China during this period, it was recognized by the Department of State that additional assistance to China might

serve in some degree to strengthen public confidence in the National Government and to aid that Government in obtaining the support of minor political parties.

#### CONSIDERATION OF EXPORT-IMPORT BANK CREDITS

One possibility was the extension of credits by the Export-Import Bank, which still had under earmark for China the sum of 500 million dollars recommended by General Marshall in 1946. Earlier discussions of credits to China with officials of the Bank had met with a negative response, the Bank view being based mainly upon the fact that developments in China cast the gravest doubts upon the National Government's capacity to service additional loans. On March 4, 1947, Secretary Marshall directed that discussions between the Department and the Bank be resumed, specifically with reference to loans for reconstruction of the Canton-Hankow Railway, the development of a new harbor at Tangku, and for rehabilitation of certain coal mines. The Bank expressed its continuing skepticism regarding China's ability to repay additional loans and its doubts as to the appropriateness of the policy of using Export-Import Bank funds for reconstruction purposes. Nevertheless, it was stated that the Bank was ready to consider specific applications for credits.

At this time, however, the National Government was preparing the details of a request not for individual project credits but for a large-scale comprehensive program of financial assistance. This was made known to the American Embassy in Nanking on April 12, and on May 8 Ambassador Koo in a conversation with Secretary Marshall asked on instructions from his Government that a loan of 1 billion dollars be advanced to China. On May 13 Ambassador Koo sent to the Secretary of State an informal memorandum summarizing his earlier statement and adding that details of the plan for the proposed loan would be submitted "when it becomes clear that the request for the loan is acceptable in principle to the United States Government."

Acceptance "in principle" of the Chinese loan proposal was felt to be impracticable in the absence of information as to the details of the proposal. The Chinese Embassy was so informed on May 22. At the same time, the Department of State made it clear that a more detailed explanation of the Chinese proposal would receive careful examination.

Subsequently, on May 27, the Chinese Embassy submitted a further memorandum requesting that the 500 million dollars earmarked by the Export-Import Bank for China be advanced to finance the purchase of equipment and materials for a list of reconstruction projects, and that an additional 500 million dollars be sought from the Con-



gress, to be available over a three-year period, for the purchase of commodities such as cotton, wheat, and petroleum, which, upon their sale in China, would provide the Chinese currency needed to meet internal costs of the reconstruction program.

China's need for foreign financial aid was sharply distinguished by the Department of State from that of certain European countries for which the extension of assistance was being actively considered by the United States Government. The virtually complete exhaustion of the foreign exchange resources of these European countries made it imperative that aid be given on an emergency basis if they were to be able to continue the import of vital necessities. China's foreign exchange reserves in mid-1947 were, by contrast, still substantial in relation to the minimum import deficit of that country. Thus, it was apparent that a request to Congress for the appropriation of funds for a large-scale program of aid to China could not be justified at that time as an emergency measure to enable continued importation of essential commodities. This was among the considerations reflected in Secretary Marshall's statement to Congress on May 20 that no further requests for foreign-aid funds were contemplated during the current session. The Chinese Embassy was informed of this statement with reference to its request for 500 million dollars to be authorized by Congress.

The question of renewal of the earmark of 500 million dollars by the Export-Import Bank was already under consideration, quite apart from the Chinese Embassy's request for extension of credits by the Bank in that amount. It was concluded by the Export-Import Bank that there was no realistic prospect that China could receive or effectively use 500 million dollars for reconstruction projects within the coming fiscal year, and that the earmark as such should not be continued beyond its expiration on June 30. The Department of State concurred in this decision, at the same time making clear its position that the lapse of the earmark should not preclude consideration of specific requests for credits to China. In connection with the lapse of the earmark, the Export-Import Bank on June 27 issued the following statement:

"... the Bank is prepared to consider the extension of credits for specific projects in China notwithstanding the expiration on June 30 of the earmarking of \$500,000,000 of the Bank's fund in April 1946 for possible further credit to Chinese Government agencies and private enterprises.

"The Bank has heretofore taken action to bring to an end its program of large emergency reconstruction credits and is reverting to its primary objective of financing and facilitating specific American

exports and imports, including the financing of American equipment and technical services for productive enterprises abroad which will contribute generally to foreign trade expansion.

"In its consideration of any application, the Bank will observe the basic principles which guide its lending activities in all areas of the world. In pursuance of the policy laid down by Congress, the Bank will make only loans which serve to promote the export and import trade of the United States, which do not compete with private capital but rather supplement and encourage it, which are for specific purposes, and which, in the judgment of the Board of Directors, offer reasonable assurance of repayment. As a general rule, the Bank extends credit only to finance purchases of materials and equipment produced or manufactured in the United States and technical services of American firms and individuals, as distinguished from outlays for materials and labor in the borrowing country."

Prior to this announcement, the Department of State on June 17 informed the Chinese Embassy of the decision to permit expiration of the earmark. It was noted, however, that the Department was prepared to support early and favorable consideration of loans to China for individual reconstruction projects.

Pursuant to the conversation with representatives of the Department of State on June 17, the Chinese Ambassador on June 27 submitted to the Export-Import Bank a list of credit applications totalling 268.3 million dollars for reconstruction projects. These were not accompanied by an indication of priority nor were they in general supported by sufficient financial and economic analyses to provide an adequate basis for conclusive consideration by the Bank. On July 31 the Ambassador requested an Export-Import Bank credit of 200 million dollars for purchases of raw cotton during 1947 and 1948. This application was refused by the Bank on the ground that China's available cotton supplies were adequate for mill requirements until mid-1948. The Bank, however, indicated its readiness to consider an application for a cotton credit in the spring of 1948.

At the time of the Bank's consideration of the proposed cotton credit, the Department of State representative on the Board of Directors, while concurring in the above action, recalled that when the earmark of 500 million dollars was permitted to lapse, a press release had been issued expressing the Bank's willingness to consider individual credits to China. He went on to make the following general statement which he requested be incorporated in the records of the Bank:

"From the standpoint of U.S. foreign policy the Department of State urges early and favorable consideration of individual Export-



Import Bank credits to China in accordance with the statutes which guide the Bank's lending activities. The Department is concerned because of the urgency of the situation in China and regards it as highly desirable from the standpoint of U.S. foreign policy that there be some prompt manifestation of economic assistance to that country. The Department hopes that the Board of Directors of the Export-Import Bank will at an early date conclude their consideration of the individual loan applications which have been submitted by the Chinese Government or by private enterprise, with a view to decision as to the extent to which such projects can qualify for Export-Import Bank financing."

During the late winter and early spring, the Congress had been considering the proposed United States Foreign Relief Program, which was intended to meet the requirements of individual countries for emergency assistance in the post-UNRRA period. Although the case of China was not identical with that of certain European countries—in the sense that unless emergency aid were made available to certain European countries, essential imports could not have been obtained—the Department of State nevertheless believed that China's inclusion in the program was justified on the ground that it would be desirable to assist China to conserve its dwindling reserves of foreign exchange for purchases other than commodities needed for current consumption. Of the 322 million dollars appropriated by the Congress, therefore, a sum of 27.7 million dollars was earmarked for a China program and an agreement to govern the extension of this aid was concluded with the Chinese Government on October 27, 1947. This amount, plus an additional sum of 18 million dollars set aside for China in a supplemental appropriation in December, was expended for purchases of rice, wheat, wheat flour and medical supplies for distribution in China's coastal cities where, at the instigation of the Department of State, rationing systems were instituted.

#### PROPOSALS FOR A SILVER LOAN

Concurrent with its consideration of Chinese requests for Export-Import Bank and Congressional loans, the United States Government was confronted with a tentative Chinese proposal for large-scale assistance as an extreme measure to bring about currency stabilization in China. The rapidly deepening Government budgetary deficit had sent the note issue and prices to astronomical figures. In its search for a remedy, the Chinese Government made cautious inquiries of the United States Embassy in Nanking regarding the possibility of a large United States loan of silver which it was

proposed should be minted and introduced into circulation as a partial substitute for and stabilizing influence on the paper currency. During the second week of June 1947, the Governor of the Central Bank approached officers of the Embassy with proposals along this line. He emphasized that they were purely tentative and informal, that no detailed plans had been worked out, and that he would prefer to await Washington's informal response before drawing up more specific plans. At the same time he submitted an undated and unsigned "memorandum on the Chinese currency" for transmittal to Washington. The Embassy, in forwarding the memorandum, described it as "a hasty and rough job which somewhat cursorily disposes of some of the technical comments" that the Embassy had made, but suggested that, in view of the deterioration in the Chinese currency situation, careful consideration be given to any reasoned proposal advanced by the Governor concerning use of silver.

Four days later the Secretary of State made a request of Secretary of the Treasury Snyder for the opinion of Treasury experts as to whether or not a silver loan to China would be practical and would establish among the Chinese people their former confidence in the silver dollar to offset their existing lack of confidence in paper currency. He emphasized that he did not believe that a silver loan to China would be favorably considered by Congress at its current session; that he did not have in mind proposing such a loan to Congress; but that he wanted to clarify for himself the various possibilities without regard to these considerations.

Pursuant to Secretary Marshall's inquiry, officers of the Treasury and State Departments jointly considered the Chinese silver proposal. They reached a conclusion that was sent to the Embassy for transmittal to the Chinese Government in the following message of July 9, 1947:

"It is thought that a loan for currency stabilization is not possible at this stage. Such a loan would, in any case, require Congressional action. It is recognized here that reintroduction of silver coins may ultimately provide a means of achieving stabilization, but it is considered that (1), no monetary measure could have an appreciable effect in the face of continued massive deficit spending, and (2), as the proposal sketched in the Central Bank Governor's memorandum indicates, if adopted, the flight from fapi might be more seriously accentuated."

This view was subsequently confirmed and elaborated by the Treasury Department, which, in response to Secretary Marshall's inquiry, stated:



"The Treasury Department is of the opinion that there is little merit to the proposal to introduce silver currency in China under existing conditions. Opportunities for graft and favoritism are involved in this proposal such as were afforded under the gold sales program of 1942. The depreciation in the value of the paper currency would occasion a drain upon the government stocks of silver coins, a large part of which may go directly into hoarding. It is our view that the completion of the program of substituting silver coins for paper currency might involve an impossibly large volume of silver coins under such circumstances. It is also possible that the introduction of silver coins on a partial scale such as is proposed by the Chinese Government might actually bring about a situation where the paper currency would depreciate in value faster than it would without the silver coins, and accelerate the deterioration in Chinese fiscal conditions. Any association on the part of this Government in the provision of an initial stock of silver coins might involve it in a moral responsibility to provide much larger amounts of silver which would be required for the development of a new currency.

"In the presently thin world silver market, any program for the remonetization of silver in China would inevitably drive up the price of silver, and entail an outlay on the order, possibly, of half a billion dollars. Even if the presently circulating paper currency were completely replaced by silver coins there is no present indication that the Chinese government's budget would be balanced and that the government would not again resort to the issuance of paper currency to finance its deficit.

"China's basic economic difficulties are a cause rather than a result of the increasing instability of her currency. I do not need to elaborate on this theme—the heavy government deficits which are being met by continuous expansion of the paper currency, and the lack of internal peace are at the root of China's troubles. In our opinion, the appropriate time for a revision of the Chinese monetary system will come when a broad program of internal reform is developed. A remonetization of silver at that time would have advantages and disadvantages which would need to be reviewed in the light of existing circumstances, and other possible financial and monetary measures which might be taken."

#### THE MOUNTING ECONOMIC CRISIS IN CHINA

Meanwhile, the economic situation in China had continued to worsen. After the initial brake to inflation provided by the emergency measures in February, prices had resumed their upward trend. By August the Shanghai wholesale price index had reached a point 300

percent above the February level, and the open market price for the United States dollar had risen to 45,000 C.N. In September and October this upward movement continued without check. No serious effort had been made to institute even the minimum improvements in budgetary and fiscal practices needed to alter the conditions giving rise to inflation.

Similarly, the drain on China's foreign exchange reserves had continued. By October official gold and United States dollar reserves were estimated to have fallen to a level of about 300 million dollars, with no prospect that their eventual depletion could be avoided. Private exchange holdings had not been tapped. A step toward a more realistic approach to the import-export problem had been taken when the principle of a fixed dollar exchange rate was abandoned in August in favor of a policy of flexible official rates. After giving an initial impetus to exports, however, exchange policy gradually reverted to the previous practice of more or less rigid official exchange rates.

Progress had been made in certain sectors of the Chinese economy. Food production had increased, the textile industry was producing at higher levels than in 1946, and the Chinese shipping industry had been fully restored. These developments, unfortunately, were more than counterbalanced by the spread of civil strife, the continuing and widespread disruption of inland transportation, and the progressive reduction in the volume of domestic trade.

At this stage, as at every point in the gradual deterioration of the Chinese economy, the downhill movement could have been halted only by vigorous action on the part of the Chinese Government. Civil strife by this time had become an irrevocable commitment. To wage it effectively, there was needed a drastic overhaul of the Government's economic mechanism. Critically needed were controls over the expenditure of funds by the military, a drive to tap noninflationary sources of revenue, moves to end the waste of assets flowing in from earlier foreign aid programs, and, above all, the development of a national economic program geared to the requirements of large-scale military operations.

Action in these directions obviously was uniquely a responsibility of the Chinese Government. At the same time, it was recognized by the Department of State that, even if all practicable steps were undertaken by the National Government, there would be an interim period before significant results could be expected. This deteriorating economic situation was a vital significant part of the over-all picture which led Secretary Marshall to recommend in July to President Truman that a comprehensive survey be made by General Wedemeyer.<sup>2</sup>

<sup>2</sup> See pp. 255 ff.



## II. PREPARATION IN THE UNITED STATES OF THE CHINA AID PROGRAM

### INTRODUCTION

For some months in mid-1947 the Department of State had been working with the National Advisory Council on International Monetary and Financial Problems in making studies of China's balance of payments position for possible use in connection with an aid program for China. By September 1947 it had become apparent that the foreign exchange assets of the Chinese Government would by early 1948 have been reduced to a point at which they would be insufficient to finance a flow of imports essential to continuation of a minimum level of economic activity and civil order in the coastal cities. This observation was based on the belief that the foreign exchange resources which would then be available to the Chinese Government (approximately 234 million dollars in gold and United States dollars on January 1, 1948, as reported by the Chinese Government) represented the minimum amount required for purchase of military imports and for maintenance of working balances. It was estimated conservatively that private Chinese gold, silver and other foreign exchange assets had increased to at least 500 million dollars, but mobilization of such assets in support of China's foreign exchange position appeared unlikely.

### SECRETARY MARSHALL'S RECOMMENDATIONS TO CONGRESS

In consideration of China's need for funds to substitute for the Chinese Government's rapidly diminishing foreign exchange assets, the Department of State in October 1947 undertook the formulation of an economic assistance program for China to be presented to the Congress during the early part of its 1948 session. This undertaking was not based upon the premise that additional foreign aid would or could solve China's economic problems. Rather, it reflected the view that it was necessary to assist the Chinese Government so that that Government might be provided with an additional opportunity to initiate measures directed toward a fundamental improvement of its position. On November 10, in a statement before a joint session of the Senate Committee on Foreign Relations and the House Committee on Foreign Affairs, Secretary of State Marshall announced the intention of the Department to present to Congress a program of aid for China:

"The situation in China continues to cause us deep concern. The civil war has spread and increased in intensity. The Chinese Communists by force of arms seek control of wide areas of China.

"The United States and all other world powers recognize the National Government as the sole legal government of China. Only the Government and people of China can solve their fundamental problems and regain for China its rightful role as a major stabilizing influence in the Far East. Nevertheless we can be of help and, in the light of our long and uninterrupted record of friendship and international cooperation with China, we should extend to the Government and its people certain economic aid and assistance."

On the following day, during hearings before the Senate Committee on Foreign Relations, Secretary Marshall, in reply to a question regarding the funds that would be involved in a program of aid for China, stated that it would be very difficult to give any firm estimate at that time but that he would tentatively say that the amount would be in the neighborhood of 25 million dollars a month or a total of some 300 million dollars. During hearings before the House Committee on Foreign Affairs on the next day, Secretary Marshall said of the situation in China:

"It is very decidedly one where we have found the greatest difficulty in trying to calculate a course where money could be appropriated with, as I put it, a 70 percent probability of effective use in the situation.

"Now, that is what we have been trying to develop. We could not—and I add this to what I said earlier this morning—find through the ordinary agencies, the Export-Import Bank, any basis for getting ahead with certain enterprises in China which we thought would be helpful; so it is going to be necessary to turn to Congress for action on its part. What we have in mind, very briefly, is in relation to their import program from overseas outside of China, to see what can be done toward a stay of execution in the deterioration of their monetary situation so as to give them a chance, with reasonable action on their part, and very energetic action on their part, to take some measures toward restoring the financial situation."

#### PREMIER CHANG CHUN'S REQUEST OF NOVEMBER 17, 1947

On November 17 General Chang Chun, the Chinese Premier, addressed the following letter to the Secretary of State:

"At this moment when you are shouldering the heavy responsibility of formulating the initial plans for aiding Europe and China, I feel compelled to send you this message for your personal consideration.

"For over six months I have been in charge of the Executive Yuan. While I am in no wise in despair of the eventual outcome of the fight which the Generalissimo and my colleagues are putting up, I must



frankly admit that both the military and economic situations are today far more critical than at the time when I assumed office. Though the Government forces have retaken the Shantung Peninsula, thereby depriving the Communists of one of their strongholds and bases of supply, the dislodged and scattering Communist units are now operating in more and wider areas than before. This not only calls for greater military efforts but also for fresh and urgent economic measures. Furthermore, the Government position in Manchuria, if allowed to remain too long on the defensive may become out of control, politically as well as militarily. This explains why there is such an outcry on the part of the Chinese public to see China given both emergency assistance and a long-range aid program. I am sure that in whatever form or language this desire may be expressed, you will regard it with understanding and sympathy. In sending these words to you, I am fully conscious of my own responsibility in helping China merit the effort which you have so generously exerted in the past and which you are continuing to exert now."

To this message the Secretary replied as follows:

"Thank you for your letter of November 17, in which you give me your views on the present situation in China. As Dr. Wang Shih-chieh doubtless told you, we are taking steps to complete the 8 $\frac{1}{3}$  Group Program insofar as the equipment is still available and are making arrangements for China to be able to purchase ammunition from supplies in the Pacific Islands as well as from manufacturers in the United States.<sup>2a</sup>

"A program to provide economic and financial assistance to China is being prepared for presentation to the Congress.

"I am confident that despite the special difficulties which you face and the enormity of China's needs, you will appreciate that we are endeavoring to be of all possible help within the limits imposed by existing conditions in China, the United States and elsewhere.

"I send you my warm personal greetings with assurance that I will do within my power all that I can to be of assistance."

#### THE CHINESE REQUEST OF NOVEMBER 21 AND 24, 1947

On November 24 the Chinese Embassy at Washington handed the Department of State a memorandum quoting an informal *aide-mémoire*, requesting American aid, which had been presented to the American Ambassador at Nanking three days before:

"1. The Chinese Government welcomes Secretary Marshall's statement that the American Government should extend economic and

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<sup>2a</sup> The military aspects are discussed in chapter VII.

financial aid to China and that a definite proposal is under consideration for early action. Such aid is indeed essential if China is to avoid financial and economic breakdown and achieve stability.

"2. Secretary Marshall indicated tentatively that American aid might be of the order of U. S. \$300,000,000 of which U. S. \$60,000,000 might be available prior to June 30, 1948, and that he hoped that definite proposals would be ready when Congress meets next January. The prospect of such aid is gratifying, but the most recent data show that the financial situation has become so critical that emergency aid is immediately needed and cannot wait until April of next year. These data were informally supplied to the American Government through its Nanking Embassy on November 18. The Chinese Government therefore earnestly hopes that, pending the working out of a comprehensive program as mentioned below, the American Government may find it possible to provide by action of Congress interim emergency aid to cover the deficit in China's international balance of payments at the rate of at least U. S. \$25,000,000 monthly beginning with January next.

"3. The Chinese Government fully recognizes that, in order to deal with the present and prospective situation in China, a comprehensive and carefully prepared program is needed in which external aid and internal measures of self-help are closely integrated. The immediate need is for emergency aid and action to check the inflation and prevent a breakdown. But it is also clear that the time has come for China to embark upon a program of fundamental internal reform. The program should cover currency and banking, public revenues and expenditures, the armed forces, foreign trade, land policy and rural conditions, rehabilitation of essential industries and communications and administrative methods. As a result of China's sufferings and losses during eight years of war and the subsequent Communist rebellion, China cannot carry out such a program unaided. The Chinese Government, therefore, in keeping with the long history of Chinese-American cooperation, hopes it may count upon American material and technical assistance in carrying out this program.

"4. For the purpose of discussing interim emergency aid and devising plans for further action on the lines indicated above, the Chinese Government would be prepared to send to Washington a small technical mission or to receive in Nanking a similar mission from the American Government.

"The Chinese Government would appreciate an early reply from the American Government concerning the views indicated above."

The Department of State replied to the Chinese request as follows:

"The Department of State has given sympathetic consideration to



the memorandum from the Chinese Embassy dated November 24, 1947, and desires to support steps by which U.S. Government assistance can be integrated with internal measures of self-help in China in order to contribute toward an effective program for economic recovery.

"In accordance with statements made at the conference on November 13 between the Secretary of State and the Chinese Ambassador, the Department of State is actively proceeding with formulation of definite proposals for submission to the Congress in January. It is contemplated that there should be consultation between our two Governments at an early date with respect to various aspects of these proposals. If, at that time, the Chinese Government desires, the United States would welcome a small technical mission in Washington."

#### AMBASSADOR STUART'S COMMENTS

During the course of work on the China aid program, Ambassador Stuart on November 24, 1947, sent the following pertinent general comment to the Department:

"I have the honor to comment further on some of the spiritual or human factors in the civil war as they are revealing themselves more clearly in the midst of rapidly deteriorating military and fiscal trends. The Communist organizers have a fanatical faith in their cause and are able to inspire their workers and to a large extent their troops and the local population with belief in its rightness, practical benefits and ultimate triumph. As against this the Government employees are becoming ever more dispirited, defeatist, and consequently listless or unscrupulously self-seeking. This of course still further alienates the liberal elements who ought to be the Government's chief reliance. Even the higher officials are beginning to lose hope. The effect on military morale is disastrous. In this drift toward catastrophe they clutch at American aid as at least postponing the inevitable. This is all that such monetary aid can do unless there is also among the Kuomintang leaders a new sense of dominating purpose, of sacred mission, of national salvation, expressing itself in challenging slogans, arousing them to fresh enthusiasms, leading them to forget their personal fears, ambitions and jealousies in the larger, more absorbingly worthwhile cause. It seems to me that this idea can be urged upon them under two emphases.

"(1) *Freedom*. There can be absolutely no freedom of thought or action under Communist rule. The contentment that comes from a measure of economic security is conditioned on mute acceptance of party dictation. The zeal is generated by what is in large measure false and malicious indoctrination. If the Kuomintang could appreci-

ate the propagandist value of exposing this and go to the opposite extreme in guaranteeing freedom of speech, publication and assembly, at whatever seeming risk of subversive activities, it would win the loyalty of the intellectuals as nothing else could. The really harmful agitation of Communist agents in newspaper offices, schools or even in Government bureaus, could be safely left to the constructive elements in each unit concerned. An aggressive ideological warfare over this issue by the Kuomintang might be made tremendously effective. But the Government would have to take an adventurous leap and cease to rely upon its secret service and other suppressive agencies.

"(2) *The People's Livelihood*. The third of the famous *Three Principles* is being constantly honored in speeches and published articles. The Communists have gone a long way toward its realization but the Government shows up lamentably in comparison. True, it has had incessant foreign and domestic conflicts, but making all allowance for its difficulties the record to date has been extremely discreditable. If, however, all who do not want China to be communized could be enlisted in a movement to support the Government in effecting better local administration, there might well be a resurgent revolutionary movement that would attack at once graft and the inefficiency among Government officials and the wantonly destructive policy of the Communists. Both could alike be described as the present form of treasonable or unpatriotic activity, to be resisted and eliminated as they would a foreign foe by all who love their country.

"American aid could be based on the desire to help the populace in Government territory to have the twin benefits of the freedom essential to democracy and the economic welfare which is the only protection against Communist penetration. If conditioned upon hearty Government determination to achieve these two objectives for its people, it would first of all supply the new hope without which the leaders could scarcely recover from their depression of spirit and would give us the strongest leverage in furnishing the desperately needed aid as at each stage there is evidence of progress or in stopping it whenever the forces of reaction or of corruption assert themselves. . . ."

#### "SOME FUNDAMENTAL CONSIDERATIONS ON AMERICAN AID TO CHINA"

On December 22, 1947 the Chinese Government handed Ambassador Stuart the following memorandum entitled "Some Fundamental Considerations on American Aid to China":

"1. The American plan for aid to China should be a long-range four-year project, the purpose of which would be to assist China to achieve political and economic stability, including currency reform.



To attain this object, the funds for relief and rehabilitation to be obtained from the United States would require U.S. \$500,000,000 for the first year, the same amount for the second year, U.S. \$300,000,000 for the third year, and U.S. \$200,000,000 for the fourth year, totaling one and one-half billion U.S. dollars.

"2. With regard to the relief fund obtained under the plan, the Chinese Government should appropriate a fund in Chinese currency, equivalent to the value of relief commodities supplied by the United States. This fund should be put to such uses as to benefit production and to curb inflation. There should be consultation and agreement between China and the United States in mapping out schemes for spending of this fund; and the American Government should receive full information concerning its actual disbursement.

"3. China will, on her accord, employ experienced American personnel to assist her in the planning for financial, monetary, and other administrative reforms. She will likewise employ American technical experts to participate in the execution of certain construction undertakings. The Chinese Government itself will express the afore-said intention to the American Government at an appropriate moment, with the request that the latter will assist in the selection of such personnel. The employment of these personnel will not, however, be made an international legal obligation of the Chinese Government in order to avert infringement on China's sovereignty and administrative integrity.

"4. The American aid to China plan shall contain no political condition other than what may be stipulated in the aid plan for Europe. On the other hand, terms which will be stipulated in the aid plan for Europe may apply, wherever practicable, to China.

"5. As regards the supply of military equipment and ammunition, China should be allowed to purchase in the form of loans the surplus and other military material from the American Government. The total of such loans is tentatively estimated at U.S. \$100,000,000 for the year 1948. Prior to the submission of lists for such purchases, the Chinese Government will consult the American Military Advisory Group in China."

#### WASHINGTON DISCUSSIONS WITH CHINESE REPRESENTATIVES

During the last quarter of 1947, concurrent with the preparation of a China aid program, a number of conferences were held between officers of the Department of State and two representatives of the Chinese Government who had come to Washington to offer technical assistance in the drafting of the program: Dr. Arthur Young, an American who for twenty-odd years had been an adviser to the Chi-

nese Ministry of Finance, and Dr. Kan Lee, a special representative of the Ministry of Foreign Affairs. In discussing with them its plans for United States assistance to China, the Department stressed the great importance it attached to the execution by the Chinese Government of "rough and ready" measures of financial, economic and administrative reform. It was recommended to Young and Lee that they urge upon the Chinese Government the immediate preparation of such measures with a view to their prompt application, both prior to and concurrent with the anticipated extension of American aid, in order that the effectiveness of the aid might be maximized.

In January 1948 the Chinese Government, pursuant to the invitation of the Department of State, despatched a small technical mission to Washington. This mission, headed by Pei Tsu-yi, former Governor of the Central Bank of China, met frequently with representatives of the Department of State and other agencies concerned with formulation of the China aid program. The mission submitted for review with United States Government representatives a presentation of Chinese economic difficulties and remedial measures that might be instituted by the Chinese Government.

#### PREMIER CHANG CHUN'S STATEMENT OF JANUARY 28, 1948

On January 28, 1948, the Chinese Premier, General Chang Chun, issued a widely publicized statement expressing the Chinese Government's determination to undertake sweeping reforms in administrative, financial, economic and military fields. The statement read as follows:

"As a result of her suffering and losses during more than 8 years of war and the subsequent Communist rebellion, China is now facing unprecedented economic difficulties. In order to overcome these difficulties, the Chinese Government, in the light of the long history of Chinese-American friendship, has requested economic and technical assistance from the United States. It was with gratification that the Chinese Government noted the inclusion of China in the interim-aid bill and the announced intention of the United States Government to take early action during the present session of the Congress to provide substantial aid for China. The Chinese Government fully recognizes that in order to secure the maximum benefit from external aid an adequate and practicable program of domestic measures of self-help is needed. This program should at the beginning lay stress on financial and economic measures of immediate importance which will be followed or accompanied by certain other reforms in the fields of general administration and military reorganization.



The main financial and economic reform measures which the Chinese Government intends to undertake are:

“(1) Control and readjustment of Government expenditures both in Chinese national currency and foreign currencies so as to realize all practicable economies.

“(2) Improvement of the national, provincial and local tax systems and the administration thereof with the dual object of increasing the yield and placing the tax burden upon economic groups that are best able to pay.

“(3) With a view to insuring greater efficiency in the performance of their duties, the treatment of civil servants as well as officers and men will be gradually raised. Simultaneously, a program will be enforced for the gradual reduction of Government personnel.

“(4) Strengthening and extension of control over the supply of essential commodities of daily necessity with a view to checking speculation and the abnormal rise of prices.

“(5) In order to insure the maximum effectiveness of external aid, every effort will be made toward laying the basis for a more stable monetary system.

“(6) Banking and credit systems to be reformed through the centralization of control in the Central Bank of China and the maintenance of a counter-inflationary policy.

“(7) Promotion of exports through removal of obstacles to export movements.

“(8) Improvement of import control; but as soon as conditions permit, the emergency control measures shall be modified.

“(9) Improvement of agricultural production and rural conditions and land reforms through the adoption of such recommendations of the China-United States Agricultural Mission as are suitable for early introduction.

“(10) Rehabilitation of communications and essential industries as far as conditions permit in order to increase production and reduce dependence upon abnormal imports.”

#### PRESENTATION OF THE CHINA AID PROGRAM TO CONGRESS

Following a period of detailed planning by the Department of State in consultation with other departments concerned, and final review by the National Advisory Council, a program of economic aid for China was submitted to the Congress by the President on February 18, 1948. The presentation of the program was accompanied by a special message from the President, and the Secretary of State testified on February 20 before the House Committee on Foreign Affairs in support of the program.<sup>3</sup> At the same time, the Ambassador issued a pub-

<sup>3</sup> See annex 175 (a) and (b).

lic statement in China designed to explain the purpose of the proposed program of American assistance.<sup>3a</sup> The program as presented called for an appropriation of 570 million dollars to be available for expenditure until June 30, 1949, a period of approximately 15 months considering the time that would be required for Congressional action. It was envisaged that 510 million dollars of the total would be used to finance minimum imports of essential civilian types of commodities chiefly foodstuffs and industrial materials, while 60 million dollars would be programed for a few selected industrial and transportation reconstruction projects to be initiated prior to June 30, 1949.

Subsequent to the public presentation of the China aid program to Congress, the Secretary of State read the following statement to the Committees on Foreign Affairs and Foreign Relations in executive session:

I am assuming your familiarity with the general outline of the Chinese program which I presented at the opening hearing on this subject. There is a great deal that directly bears on the problem which is not in the public interest of this country, and particularly of the Chinese Government, to state for the open record. A public statement of many of the factors which have led to the failures of the Chinese Government in both the military and economic field, however accurate, would be destructive of morale to that Government and its army. Moreover, it would actually be helpful, even stimulating, to the morale of the Communist Party, and especially the Communist army. Therefore, it has been very difficult to make a frank public statement of the case.

Considering the military aspects of the problem it was clear from V-J Day in 1945 that the Chinese Government was confronted by a military situation which made it, in the opinion of virtually every American authority, impossible to conquer the Communist armies by force. Geographically, the odds were too heavy against the Government—thousands of miles of communications bordered by mountains affording easy retreats for guerrilla forces, numerous vulnerable river crossings and tunnels easily subject to destruction; the strategic and tactical characteristics of guerrilla warfare permitting a concentration of guerrilla forces at a desired point where the Government was weakest; and the governmental military necessity of covering all points, therefore all weakly and thus vulnerable to surprise attack.

There was constant insistence on the part of the Generalissimo and his high military and political group that the only way the issue could be settled was by force. I had endeavored to persuade them time after time that it was not within their capability to settle the matter by force. The odds were too heavy against them. Furthermore, there was conspicuous ineptitude and widespread corruption among the higher leaders. The consequent low morale of the Chinese Government armies has been a factor of great importance to the military situation.

We have had many proposals for this Government to support the Chinese military program. That is easy to say, but extraordinarily difficult and dangerous to do. It involves obligations and responsibilities on the part of this Government which I am convinced the American people would never knowingly accept. We cannot escape the fact that the deliberate entry of this country into the armed

<sup>3a</sup> See annex 176.



effort in China involves possible consequences in which the financial cost, though tremendous, would be insignificant when compared to the other liabilities inevitably involved.

So far, I have been discussing the Government military forces. On the other side, the Communist forces have brought about terrible destruction and virtually wrecked the economy of China. This was their announced purpose—to force an economic collapse. The development of the situation was predicted by me to the Chinese Government frankly and forcibly many times in the summer and fall of 1946. The Government failures have been even worse than I anticipated.

We have furnished important aid to China since V-J Day. Military aid included the transportation by U.S. facilities of Chinese Government troops from points in west China to the major cities of central and north China and from coastal points to the port of entry into Manchuria for the reoccupation of Japanese-held areas. At the end of the war the U.S. had largely equipped and partially trained 39 Chinese divisions. Additional equipment was transferred to the Chinese to complete these divisions and to replace worn-out equipment. Military lend-lease aid to the Chinese Government amounted to more than \$700 million. The Chinese Government obtained the arms and equipment of the surrendering Japanese armies in China proper (below the Great Wall) and Formosa, a total of approximately 1,235,000 men. The Chinese Communists obtained large quantities of Japanese arms in Manchuria, through direct or indirect Soviet connivance; the number of surrendering Japanese troops in Manchuria is estimated at 700,000.

The National Government has had its own arsenals, which, while small by U.S. standards, did represent an effective addition to its military potential. Japanese-armed Chinese puppet troops with their equipment were taken over by the Chinese Government in large numbers—estimated as 780,000.

Under Public Law 512 the U.S. has transferred to the Chinese Navy as a gift 97 naval craft and has trained Chinese naval personnel to man these vessels. The U. S. Military Advisory Group at Nanking has furnished advice and assistance on a staff level to the Chinese Government in organizational and training matters and is now participating in training of Chinese troops on a division level in Formosa.

The U. S. Marine Corps landed about 55,000 men in north China after V-J Day. In addition to disarming the Japanese, the Marines guarded railways and coal mines in north China until September 1946 to ensure an adequate supply of coal for the vital industrial areas in north and central China. At the time of their withdrawal in the spring and summer of 1947, the Marines "abandoned" certain military matériel, including munitions, to the Chinese Government forces. The U. S. Army and Marine Corps were largely responsible for the removal of approximately 3,000,000 Japanese soldiers and civilians from China.

We have been supplying munitions under surplus property arrangements and the Chinese have made some purchases of munitions commercially. In recent months the Chinese have concluded contracts with OFLC for most of the U. S. military surplus suitable to Chinese needs, including ammunition, transport planes and other military matériel. Arrangements are now being completed to sell to the Chinese under surplus arrangements the remaining available ammunition in Hawaii and in the Zone of the Pacific.

There have been long delays in completing the necessary contracts largely because the Chinese officials concerned persisted in time-consuming maneuvers to secure an even greater bargain than our people felt authorized to agree to.

On the civilian side, commercial vessels have been transferred to the Chinese Government and large amounts of civilian goods valuable to the Chinese economy

were sold to the Chinese Government under surplus arrangements at prices representing only a small fraction of their procurement cost. The Export-Import Bank has extended credits to the Chinese for reconstruction purposes and the import of cotton. The U.S. contributed a major share of the UNRRA program for China. Authorized U.S. aid from V-J Day until the present date, exclusive of surplus property sales, totals \$1,432,000,000, at least half of which was military assistance.

The Chinese Government has received aid from other foreign sources. The non-U.S. share of the UNRRA program and certain foreign credits together total approximately \$250 million. The Chinese Government obtained the large Japanese industrial and other holdings in China having a roughly estimated value in 1945 dollars of \$3,600,000,000. (This figure allows for a 50 percent reduction of the value of Japanese holdings in Manchuria due to Soviet removals, civil war and related damage and general under-maintenance in the post-war period.)

All of the foregoing means, at least to me, that a great deal must be done by the Chinese authorities themselves—and that nobody else can do it for them—if that Government is to maintain itself against the Communist forces and agrarian policies. It also means that our Government must be exceedingly careful that it does not become committed to a policy involving the absorption of its resources to an unpredictable extent once the obligations are assumed of a direct responsibility for the conduct of civil war in China or for the Chinese economy, or both.

There is another point that I wish to mention in consideration of this matter. There is a tendency to feel that wherever the Communist influence is brought to bear, we should immediately meet it, head on as it were. I think this would be a most unwise procedure for the reason that we would be, in effect, handing over the initiative to the Communists. They could, therefore, spread our influence out so thin that it could be of no particular effectiveness at any one point.

We must be prepared to face the possibility that the present Chinese Government may not be successful in maintaining itself against the Communist forces or other opposition that may arise in China. Yet, from the foregoing, it can only be concluded that the present Government evidently cannot reduce the Chinese Communists to a completely negligible factor in China. To achieve that objective in the immediate future it would be necessary for the United States to underwrite the Chinese Government's military effort, on a wide and probably constantly increasing scale, as well as the Chinese economy. The U.S. would have to be prepared virtually to take over the Chinese Government and administer its economic, military and governmental affairs.

Strong Chinese sensibilities regarding infringement of China's sovereignty, the intense feeling of nationalism among all Chinese and the unavailability of qualified American personnel in the large numbers required argue strongly against attempting any such solution. It would be impossible to estimate the final cost of a course of action of this magnitude. It certainly would be a continuing operation for a long time to come. It would involve this Government in a continuing commitment from which it would practically be impossible to withdraw, and it would very probably involve grave consequences to this nation by making of China an arena of international conflict. An attempt to underwrite the Chinese economy and the Chinese Government's military effort represents a burden on the U.S. economy and a military responsibility which I cannot recommend as a course of action for this Government.



On the other hand we in the Executive Branch of the Government have an intense desire to help China. As a matter of fact, I have struggled and puzzled over the situation continuously since my return. Our trouble has been to find a course which we could reasonably justify before Congress on other than emotional grounds. It has been a long struggle to concoct an economic program and clear it through the various Government agencies—the National Advisory Council, and, of course, the Budget Bureau, where they properly have to be very factual.

We are already committed by past actions and by popular sentiment among our people to continue to do what we can to alleviate suffering in China and to give the Chinese Government and people the possibility of working out China's problems in their own way. It would be against U.S. interests to demonstrate a complete lack of confidence in the Chinese Government and to add to its difficulties by abruptly rejecting its request for assistance. The psychological effect on morale in China would be seriously harmful.

We hope that the program we are presenting to Congress will assist in arresting the accelerating trend of economic deterioration to provide the Chinese Government with a further opportunity to lay the groundwork for stabilizing the situation. In these circumstances, I consider that this program of economic assistance, proposed with full recognition of all the unfavorable factors in the situation, is warranted by American interests.

The problem of U.S. aid to China must be considered in the light not only of the foregoing but also in its relation to other important factors.

China does not itself possess the raw material and industrial resources which would enable it to become a first-class military power within the foreseeable future. The country is at present in the midst of a social and political revolution. Until this revolution is completed—and it will take a long time—there is no prospect that sufficient stability and order can be established to permit China's early development into a strong state. Furthermore, on the side of American interests, we cannot afford, economically or militarily, to take over the continued failures of the present Chinese Government to the dissipation of our strength in more vital regions where we now have a reasonable opportunity of successfully meeting or thwarting the Communist threat, that is, in the vital industrial area of Western Europe with its traditions of free institutions.

Present developments make it unlikely, as previously indicated, that any amount of U.S. military or economic aid could make the present Chinese Government capable of reestablishing and then maintaining its control throughout all of China.

The issues in China are thoroughly confused. The Chinese Communists have succeeded to a considerable extent in identifying their movement with the popular demand for change in present conditions. On the other hand, there have been no indications that the present Chinese Government, with its traditions and methods, could satisfy this popular demand or create conditions which would satisfy the mass of Chinese people and prevent further violence and civil disobedience.

I know from my own personal experience that large numbers of young Chinese, college graduates, have gone over to the Communist Party, not because they favored the ideology of the Party but because of their complete disgust with the corruption among the officials of the Chinese Government. In the opinion of these young men, the Communist Party was trying to do something for the common people, and no one accuses the Communist leaders or officials of personal graft. For this reason the Communist military forces are not all of the

same way of thinking. I have recently been told by our representatives in Manchuria and other places that it is quite apparent that considerable groups are within the ranks of the Communist army because they are opposed to the iniquities of the political party in power, the Kuomintang, and its failure to do anything constructive for the common people and not because of any belief in Communist ideology.

At present, the Chinese Government is not only weak but is lacking in self-discipline and inspiration. There is little evidence that these conditions can be basically corrected by foreign aid. In these circumstances, any large-scale U.S. effort to assist the Chinese Government to oppose the Communists would most probably degenerate into a direct U.S. undertaking and responsibility, involving the commitment of sizeable forces and resources over an indefinite period. Such a dissipation of U.S. resources would inevitably play into the hands of the Russians, or would provoke a reaction which could possibly, even probably, lead to another Spanish type of revolution or general hostilities.

In these circumstances, the costs of an all-out effort to see Communist forces resisted and destroyed in China would, as indicated above, be impossible to estimate; but the magnitude of the task and the probable costs thereof would clearly be out of all proportion to the results to be obtained.

It was not intended that American aid should be equated with China's total foreign exchange deficit. In the first place, no reliable estimate of China's total foreign exchange expenditures over the next 15 months was available. Such an estimate would have had to include expenditures for military purposes as well as for civilian imports, but the Chinese Government had spent very little since the war for imports of military equipment and supplies and had not formulated a program of military procurement. It was believed that necessary military expenditures could be financed in the discretion of the Chinese Government out of its own foreign exchange reserves and due allowance was made for this contingency. Furthermore, China's receipts of foreign exchange from exports and remittances were so erratic that it was extremely difficult to project the capacity of the Chinese Government to pay for its essential civilian imports out of current earnings.

There were, however, certain available criteria which were applied in formulating the program. The capacities of China's cotton mills were known and their needs for raw cotton could be estimated, as could the petroleum requirements of selected industries and transportation facilities. Thus, a floor and a ceiling as well were available for two major categories of China's import requirements. Experience gained in previous aid programs had demonstrated that China's capacity for effective internal distribution of other commodities, such as food and fertilizer, was extremely limited due to high costs generated by inflation and to the cumbersome and inefficient administrative structure of many Chinese organizations. It was decided, therefore, to program aid imports of commodities other than petroleum and cotton



on the basis of past imports as modified by Chinese Government estimates of minimum import requirements.

It was recognized that the comprehensive reconstruction of Chinese industry and transportation would require foreign capital of great magnitude. It was evident, however, that a large scale reconstruction program could not be carried out successfully amidst the existing disorganization and hyperinflation. A high proportion of the cost of each reconstruction project would have to be met in Chinese currency to cover domestic expenditures for labor and materials. Thus, the inflationary consequences of an ambitious reconstruction program might well have been so extreme as to have crippled the program itself and substantially increased the rate of economic deterioration in the economy as a whole. It was decided therefore to concentrate on a few of the most serious obstacles to permanent improvement of the Chinese economic situation. These obstacles were the shortage of electric power, coal and fertilizer, and the serious disrepair existing in China's railroad facilities.

Other considerations, such as the availability of specific commodities and competing demands upon American resources, were of course brought to bear on the exact amount of aid requested. The total amount programed, however, was estimated as approximating the maximum of commodities that China could absorb effectively within a limited time period and, on the basis of conservative estimates of prospective exports and remittances, this amount was believed to be beyond China's means to finance out of current earnings. Such improvement as China could have effected in exports and remittances would have increased the amount of foreign exchange available to the Chinese Government for additional imports or for accumulation of reserves.

The Secretary of State had stated in his initial testimony on the aid program before the House Foreign Affairs Committee that "provision of a currency stabilization fund would, in the opinion of our monetary experts, require large sums which would be largely dissipated under the present conditions of war financing and civil disruption." Nevertheless, in the course of Committee hearings, interest was evidenced in the possibility of lending stability to the Chinese currency through a United States loan or grant of silver for monetary circulation within China. Pursuant to a request from the House Foreign Affairs Committee, the Department of State in late March submitted to Chairman Eaton of that Committee a statement analyzing the silver proposal with reference to China. The statement had been prepared in collaboration with the Treasury Department and the Federal Reserve Board

and was entitled "Possible Use of Silver for Monetary Stabilization in China in Connection with China Aid Program."<sup>4</sup> A copy of the statement also was submitted to the Senate Committee on Foreign Relations. The analysis led to negative conclusions which were stated briefly in the opening summary paragraph of the statement as follows: "The China Aid Program does not provide for the use of silver to bring about monetary stability in China. It does not do so for three main reasons: *one*, because conditions in China do not now furnish a basis for any lasting currency stabilization; *two*, because even if basic conditions now favored stabilization of the currency and price level it would not be practical to restore the silver standard in China; and *three*, because the introduction of silver as an emergency measure at this time would involve such technical difficulties as to make it a costly and uncertain venture."

It was clear that the proposed aid program could not, of itself, bring about a decided change for the better in the rapidly deteriorating Chinese economic picture. Other factors remaining equal, it was believed that the proposed aid would serve to prevent an acceleration of the inflation that was certainly in prospect in the absence of aid. The expendable commodities would help to prevent starvation in the coastal cities, maintain employment in the cotton mills, and keep other industry and transportation from breaking down, while the capital goods would make possible some permanent improvement in important sectors of the economy. Moreover, receipts from the sale of these goods within China by the Chinese Government would to some extent merely serve to maintain the level of income that the Government had been receiving. There would still remain a very large budgetary deficit that the Chinese Government had been meeting by the issuance of currency. Nor would the extension of American material aid affect the other major problems of China's civil and military administration that represented the basic deterrents to effective organization of the economy and prosecution of the Government's military program.<sup>4a</sup>

Thus, it was apparent at the time this aid program was presented to the Congress that no amount of outside material assistance or advice could substitute for the far-reaching steps that would have to be taken by the Chinese Government itself if it were to survive. This was widely recognized by many Chinese individuals and officials of the Chinese Government including the then Premier Chang Chun, who had, as stated above, issued on January 28, 1948, a statement of intention to undertake measures of domestic reform. This state-

<sup>4</sup> See annex 177.

<sup>4a</sup> See annex 178 (a) and (b).



ment by the Chinese Government lent some encouragement to the Administration and the Congress in support of the hope that a program of United States aid might be augmented sufficiently by the Chinese themselves so that a basis could be laid for economic improvement and political stability.

These circumstances dictated that an initial United States aid program for China should be limited approximately to the period of a year rather than authorized for five years as had been recommended by General Wedemeyer, or for four years as was requested by the Chinese Government. The proposed China aid program differed sharply in this respect from the European Recovery Program which was considered simultaneously by the Congress. In the case of both Western Europe and China, the effectiveness of United States aid depended primarily upon the performance of the Government through which aid would be extended. But in the European situation, economic and political conditions, and the administrative structure of the governments concerned, made it possible to develop a long-range economic reconstruction plan, whereas in China such planning was clearly impossible, and the capacity of the Chinese Government to carry out sweeping measures necessary to permanent economic improvement was a highly uncertain factor. Authorization of a long-range aid program would have represented a commitment by the United States Government from which it would have been extremely difficult, if not impossible, to withdraw, regardless of future developments. The China aid program was regarded by the Department of State as a measure which might become either the first stage of larger and more constructive endeavors or the conclusion of large-scale United States aid to the Chinese Government. These alternative possibilities, and the fact that their determination would depend heavily on actions of the Chinese Government, were pointed out by the Secretary in testimony before Congress and subsequently by the United States Embassy to officials of the Chinese Government.

### III. THE CHINA AID ACT OF 1948

The President's request for authorization and appropriation of 570 million dollars for economic aid to China was considered during March by the Senate Committee on Foreign Relations and the House Committee on Foreign Affairs. The House of Representatives was the first to pass legislation for aid to China, incorporated in an omnibus bill dealing with foreign aid on a world-wide basis. The House bill authorized two separate appropriations for China totaling 570 million dollars for a 15-month period. One authorization pro-

vided 420 million dollars for economic aid and the other amended the legislation under which Greece received aid to authorize 150 million dollars for military assistance to China to be supervised by an American military mission on the same basis as that which underlay provision of United States military aid in Greece. This would have required assumption of responsibility by the United States Government for programing, procurement and delivery of military supplies for the Chinese Government and for detailed supervision of their use in China, including operational advice to Chinese combat forces in the field.

The Senate dealt with aid to China in an individual bill which authorized the appropriation of 463 million dollars to be available for obligation for the period of one year. Of this total, 363 million dollars was to be provided as economic aid while the balance, 100 million dollars, was to be set aside for grants on such terms as the President might decide. The legislative history of this bill made it clear that this special fund was to be disbursed at the discretion of the Chinese Government, although it was assumed that the Chinese Government probably would elect to use it largely for procurement of military supplies. The Senate bill, however, made no reference to military aid in providing for this special grant and the report of the Senate Foreign Relations Committee stated:

"In view of the Chinese requirement for military supplies, it may be assumed that the Chinese Government, on its own option and responsibility, would seek this grant for such supplies. With intelligent planning, and careful conservation and efficient utilization the Chinese Government could achieve much with this sum. . . . [It] will be extended in the form of grants to be used by the Chinese Government without any of the conditions and controls which will prevail with respect to the expenditure of the remaining \$363,000,000. Presumably, therefore, this amount can be used for the procurement of military supplies and equipment if the National Government so desires. The committee agreed, however, that the broad language of section 3 (b) of the present bill should not be interpreted to include the use of any of the armed forces of the United States for combat duties in China."

Thus, the Senate and House bills differed sharply in the degree to which they would place responsibility on the United States Government for supervision of Chinese Government military planning and operations. This difference was reconciled by the House and Senate conferees in favor of the Senate bill. The conference bill, which was passed by the Congress on April 2, 1948, followed substantially the form of the Senate bill but changed the amounts



authorized for one year to 338 million dollars for economic aid and 125 million dollars for special grants to be used in the discretion of the Chinese Government. The conference bill became the China Aid Act of 1948<sup>5</sup> and was incorporated as Title IV of Public Law 472 entitled the Foreign Assistance Act of 1948.<sup>6</sup>

Congress subsequently appropriated the full 125 million dollars authorized for special grants to the Chinese Government. However, despite testimony by the Department of State that the full amount of the President's original request for 570 million dollars was needed for economic aid, the Congress appropriated only 275 million dollars for this purpose. The 570 million dollar program for 15 months presented by the President, if scaled down proportionately to a 12-month period, would have come to approximately 463 million dollars. Thus, the appropriation represented an actual reduction of 188 million dollars below the amount requested for economic aid.

The preamble to the China Aid Act of 1948 declared it to be the policy of the people of the United States to encourage the Republic of China and its people to exert sustained common efforts to achieve internal peace and economic stability, to maintain the genuine independence and administrative integrity of China and to sustain and strengthen principles of individual liberty and free institutions in China through a program of assistance based on self-help and co-operation. It further declared it to be the policy of the United States that assistance provided under the act should at all times be dependent upon Chinese cooperation in furthering the programs. Finally, the preamble emphasized that any assistance furnished under the act

“ . . . shall not be construed as an express or implied assumption by the United States of any responsibility for policies, acts, or undertakings of the Republic of China or for conditions which may prevail in China at any time.”

Section 405 of the act provided that

“ . . . an agreement shall be entered into between China and the United States containing those undertakings by China which the Secretary of State, after consultation with the Administrator of Economic Cooperation, may deem necessary to carry out the purposes of this title and to improve commercial relations with China”.

In addition to the supply of expendable commodities and provision

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<sup>5</sup> See annex 179. It received the President's approval on Apr. 3, 1948.

<sup>6</sup> Title I (the Economic Cooperation Act of 1948) of this omnibus act authorized the European Recovery Program, and titles II and III dealt with the International Children's Emergency Fund and the Greek-Turkey aid programs respectively.

of capital goods for reconstruction projects envisaged in the program presented by the President, the Congress in section 407 of the act provided for a program of assistance for reconstruction in rural areas of China. This section authorized the Secretary of State to conclude an agreement with China establishing a Joint Commission on Rural Reconstruction in China to be composed of two Americans and three Chinese. It was apparent that such a program would have to be largely educational in character and, therefore, that the funds required for its operation would, for the most part, be Chinese currency. Consequently, this section provided that the rural reconstruction program might be financed by "an amount equal to not more than 10 per centum of the funds made available" for economic aid to China, and that "such amount may be in U.S. dollars, proceeds in Chinese currency from the sale of commodities made available to China" as economic aid, or both.

#### IV. IMPLEMENTATION OF THE CHINA ECONOMIC AID PROGRAM

##### INITIATION OF THE PROGRAM

By virtue of an advance by the Reconstruction Finance Corporation, the Economic Cooperation Administration was able to launch the authorized program of commodity assistance to China before Congress acted on its appropriation. The China Aid Act of 1948 provided for an RFC advance of 50 million dollars, and the President decided that this amount should be divided between economic aid and the program of special grants to the Chinese Government in the same proportion that the total authorized appropriations for these two purposes bore to each other. Thus, 36.5 million dollars of the 50 million dollars was allocated by the Bureau of the Budget to ECA, and 13.5 million dollars was allocated to the Treasury for disbursement upon request by the Chinese Government. ECA extended assistance initially in accordance with the terms of notes exchanged on April 30, 1948, between the Secretary of State and the Chinese Ambassador in Washington. These notes provided that, pending the negotiation of a bilateral economic aid agreement, the extension of American aid would be governed by the agreement of October 27, 1947, negotiated in connection with the United States Foreign Relief Program, subject to such modifications as might be agreed by the two governments.

Negotiations regarding the terms of a bilateral economic aid agreement between China and the United States were begun in May of 1948 between the American Embassy in Nanking and the Chinese Ministry of Foreign Affairs. The Act specified that aid should be



provided to China ". . . under the applicable provisions of the Economic Cooperation Act of 1948 (Title I) which are consistent with the purposes" of the China Aid Act (Title IV). Thus, it was necessary that the Department of State negotiate, after consultation with ECA, an agreement with China which adhered as closely as possible to the terms specified by Title I for aid to countries participating in the Organization for European Economic Cooperation. At the same time, due allowance had to be made for certain aspects of the Chinese situation that were basically different from conditions obtaining in Western Europe. Variation was called for particularly in regard to those sections of Title I which prescribed various undertakings in the field of economic self-help to be required of European governments. It would have been futile, for example, to require that the Chinese Government, in the midst of civil strife, rampant inflation and administrative disorganization, attempt to achieve objectives in the field of industrial reconstruction and financial stabilization as rigorous as those indicated by Title I for commitment by Western European countries.

Negotiations were satisfactorily concluded in the first days of July and the Agreement was signed on July 3, 1948, by Ambassador Stuart and the Chinese Minister of Foreign Affairs, Wang Shih-chieh.<sup>7</sup> In general, the Agreement followed the pattern of the bilateral agreements which were negotiated simultaneously with Western European countries. The language of certain articles was made almost identical for those undertakings specified by Title I which applied in principle to the Chinese as well as to the European situation. Where circumstances differed substantially, however, some standard articles were modified considerably in the China Agreement, or unique provisions were added.

#### UNDERTAKINGS BY THE CHINESE GOVERNMENT

The undertakings by the Chinese Government in the Agreement which were most significant in terms of their relevance to the basic problems confronting that Government, or in terms of their unique character, can be summarized as follows:

1. In order to achieve the maximum improvement of economic conditions through the employment of American assistance, the Chinese Government agreed to (a) take the measures necessary to ensure efficient and practical use of economic resources available to it, including effective use of United States aid goods and appropriate use of private Chinese assets in the United States, (b) promote the development of industry and agriculture on a sound economic basis, (c) take the

<sup>7</sup> See annex 181.

financial, monetary, budgetary and administrative measures necessary to create more stable currency conditions, and (d) cooperate with other countries to increase the international exchange of goods and services and to reduce public and private barriers to foreign trade.

2. The Chinese Government agreed to make all practicable efforts to improve commercial relations with other countries, with particular reference to the conditions affecting foreign trade by private enterprises in China. This undertaking was unique to the China Agreement and was required specifically by section 405 of the China Aid Act. The article containing this undertaking was made fairly general in character, partly out of deference to the sensitivities of the Chinese Government, and also because the Chinese Government on May 22, 1948, had put into effect the provisions of the General Agreement on Tariffs and Trade, which detailed principles of foreign commercial relations.

3. The Chinese Government agreed that all United States aid goods should be processed and distributed according to terms and conditions and prices agreed upon between the Chinese and United States Governments. The Chinese Government also undertook to achieve fair and equitable distribution of United States aid goods and similar commodities, in so far as possible through rationing and price control systems in the urban centers of China. This also was an undertaking unique to the China Agreement, but it was believed that provisions for joint supervision over the distribution of United States aid goods within China by the two Governments was essential to minimize dissipation of such goods in the disorganized situation that existed.

The commitments in the Agreement by the Chinese Government to take action in the field of economic self-help represented major undertakings towards large objectives. They were, however, general in character and expressed in relative rather than absolute terms. The American Government was fully appreciative of the enormous difficulties which confronted the Chinese Government. It did not expect perfection or near perfection in the performance of that Government. Nevertheless, it was evident that unless the Chinese Government and people themselves were to take effective initial steps as a necessary basis for the progressive solution of their economic and administrative difficulties, American aid, whether economic or military, would accomplish little of permanent value. The China Aid Act was designed particularly to afford the Chinese Government an opportunity to execute desperately needed measures of self-help. It was therefore incumbent on the American Government to make use of its program of aid, to the maximum extent possible and appropriate,



to represent to the Chinese Government the essentiality of its undertaking those measures of self-help indispensable to its survival.

It was recognized that the self-help undertakings expressed by the Chinese Government in the bilateral aid agreement were so general that they provided little guidance for concrete action and offered considerable latitude for Chinese failure to act. General undertakings to initiate basic reforms had been undertaken unilaterally by the Chinese Government in the past with little to show for them. What was really called for in the circumstances was the formulation of specific measures and the early and progressive translation of such measures into a coherent program of concrete action. As indicated above, the Chinese Premier, Chang Chun, had voluntarily issued a general statement in January 1948 of intention to carry through sweeping reform measures. The prompt and practical implementation of the Premier's statement had been urged by the United States Government as soon as the statement was issued, but after 3 months there was no evidence that the statement had occasioned the initiation of first steps directed toward basic reforms. The American Government believed that it should take the occasion of the negotiation of the aid agreement vigorously to persuade the Chinese Government to formulate specific measures for concrete action, and that it should urge the Chinese Government continuously throughout the period of the aid program to carry out such measures.

Consideration was given by the Department of State to the inclusion of more specific Chinese commitments in the bilateral aid agreement, or to obtain separate written commitments from the Chinese Government. It was decided, however, that insistence on a formalization of detailed commitments in this manner would prove unworkable even if attained. This decision reflected recognition of the fact that, while it was appropriate to call for formal general commitments on self-help by the Chinese Government in connection with extension of a large United States aid program, the specific implementation of such commitments was, in a purely formal as well as in a very real sense, the exclusive responsibility of the Chinese Government. A requirement of written pledges on matters of detailed administration by the Chinese Government as a prerequisite to United States aid would place on the United States Government the responsibility for supervising the implementation of the pledges and the obligation to suspend or to withdraw aid if the specific commitments were not met. This would have been an undertaking by the American Government which probably would have led to the employment of American supervisory personnel in China in large numbers, and which unquestionably would have been regarded in China and elsewhere as an extreme infringement

ment of Chinese sovereignty. It would have involved the American Government, in effect, in an attempt to force the Chinese Government to do in its own self-interest those things which only that Government itself was in a position to initiate and which, in the last analysis, only the Chinese Government itself could administratively perform.

In view of the above considerations, the Department of State decided that efforts should be intensified on an informal basis to persuade the Chinese Government of the necessity of early concrete measures in implementation of the general undertakings proposed for inclusion in the aid agreement. Consequently, the Embassy in Nanking was instructed to hold a special series of informal discussions with Chinese Government leaders corollary to negotiations on the aid agreement, such discussions to be related in substance to the agreement but to be held apart from the formal negotiations. The Department indicated that, in such discussions, the Chinese should be pressed for oral assurances regarding specific measures intended.

#### SPECIFIC ECONOMIC MEASURES RECOMMENDED TO CHINA

On May 15, 1948, the Department of State transmitted to the Embassy at Nanking for use in corollary discussions with Chinese Government leaders a list of the principal specific measures regarding which it was believed the Chinese Government should initiate concrete steps. The list was not meant to be comprehensive, nor did it attempt to detail the administrative steps that would be involved. It was felt that the Embassy was in a better position to judge the more detailed actions that would be required. In any event, the Embassy was advised to encourage the Chinese to set forth their own proposals for general and concrete action, reserving the Embassy's comments for emphasis or addition if significant points were neglected by the Chinese. The following measures were those contained in the instruction from the Department of State to the Embassy:<sup>8</sup>

##### 1. *Government Expenditures*

(a) Establishment of budgetary control and standardization of accounting, based on short-term projections, in the hands of a central fiscal authority with power to make allocations for all expenditures and with sufficient political strength to resist demands for unnecessary expenditures.

(b) Elimination of nonproductive expenditures not essential to efficient civil administration and prosecution of the war, such as padded army rolls, troops garrisoned in sheltered areas, Kuomintang Party activities, and so forth.

<sup>8</sup> See annex 182.



## 2. *Government Receipts*

- (a) Administrative improvements in taxation.
- (b) Expansion of measures to protect tax revenue from currency depreciation, such as the use of multiplication factors, ad valorem taxes and taxation at source.
- (c) Expeditious sale of Government assets which could be operated more appropriately and efficiently by private enterprise.

## 3. *Civil and Military Administration*

- (a) Adoption or continuation of a realistic cost of living index as a standard for ensuring more adequate pay for civil employees and soldiers.
- (b) Drastic and impartial weeding out of civil and military officials guilty of gross inefficiency or corruption.
- (c) Conscientious reduction of civil and military rolls to eliminate unnecessary employees.
- (d) Coordination and elimination of duplication in civil and military agencies.

## 4. *Distribution of Staple Commodities*

Improved administration of, or extension of, distribution controls or incentives to maintain and expand the flow of consumer goods into rural areas as necessary to increase production and movement of agricultural goods for urban consumption and export.

## 5. *Banking and Credit*

Adjustment of the banking system in order:

- (a) to give the Central Bank complete control of banking and credit policy for the purpose of checking speculation and ensuring more adequate credit for essential productive economic activity;
- (b) to establish a clearer demarcation between the functions of Government and private banks and to prevent favoritism to Government banks;
- (c) to eliminate uneconomic banking operations, such as the Central Cooperative Bank.

## 6. *Agricultural Improvement*

Implementation of recommendations of the Joint U.S.-China Agricultural Mission, with special reference to enforcement of reductions in rents and interest rates.

## 7. *Foreign Trade and its Controls*

- (a) Administrative improvements in import and exchange controls including coordination throughout China of control procedures.

- (b) More realistic exchange rate policies.
- (c) Provision of adequate credit for production and marketing of export goods.
- (d) Improvement in quality and standardization of export goods.

#### 8. *Encouragement to Private Enterprise*

- (a) Clarification, by action as well as by statement, of fields open to private enterprise without governmental intrusion.
- (b) Elimination of special privilege in foreign trade and domestic enterprise.

In addition to the measures of self-help listed above, the Department instructed the Embassy to request that the Chinese Government permit foreign flag vessels carrying American aid cargo destined for inland water ports to discharge their cargo at such ports. It was believed that this permission was necessary for the effective implementation of American aid to interior points of China. After lengthy consideration, the Chinese Government indicated its willingness to grant such permission on a case by case basis, but the effect of the decision was not great for, by the time it was made, foreign shipping firms had become reluctant to risk transportation up the Yangtze.

In discussing the shipping problem with Chinese officials, the Embassy pointed out, *inter alia*, that general Chinese permission for foreign commercial vessels to carry international cargo on China's major inland waterways would clearly be to China's economic interest; that, while all sovereign powers enjoyed full control over national inland waterways, a large majority of nations had for reasons of economic self-interest granted foreign commercial vessels right of access to some or all of their inland ports.

In commenting on the Department's instructions, the Embassy indicated that while measures of self-help had frequently been the subject of pointed discussions with Chinese leaders in the past, it agreed that an intensive effort should now be made to urge the overwhelming importance of immediate reforms.<sup>9</sup> On May 22, 1948, Ambassador Stuart, during a conversation with President Chiang Kai-shek, handed him a memorandum dealing with the problems of domestic reform in China.<sup>10</sup> The memorandum was represented, not as an official document, but as the Ambassador's views as to what basic steps should be taken. It covered many of the points made in the Department's instruction of May 15, but the contents of the memorandum were arranged to correspond to the ten points of reform made in Premier

<sup>9</sup> See annex 180.

<sup>10</sup> See annex 182.



Chang Chun's statement of January 28, 1948. The Ambassador's memorandum subsequently was used by members of the Embassy as the basis for informal discussions with numerous other high Chinese Government officials, to whom the points were elaborated in greater detail with emphasis on the urgent need for early actions of specific and concrete character.

Informal contacts similar to the "corollary discussions" were maintained with various Chinese Government officials by members of the United States Embassy and by officers of the ECA mission in China throughout the period of the economic aid program. It was considered that American advisory assistance to the Chinese Government could be arranged more appropriately in this manner than by the designation of American officials as advisers to various Government agencies. The experience of foreign advisers to the Chinese Government, of whom there had been many in the past, provided little ground for believing that the results of such designation would be fruitful, nor did it seem wise that the American Government should be burdened in this manner, even by implication, with responsibility for actions, or failure to act, by the Chinese Government. It appeared axiomatic that, if Chinese leaders were disposed to accept advice, they would do so whether the advice was given in an official capacity or on an informal basis. Moreover, the Chinese Government was understandably sensitive to the type and degree of American guidance that might be associated with American aid. It was recalled that the Chinese Government stated in its memorandum of December 22, 1947, that while it intended to employ, on its own accord, American personnel to assist in planning for financial, monetary and other administrative reforms, "the employment of these personnel will not, however, be made an international legal obligation of the Chinese Government in order to avert infringement on China's sovereignty and administrative integrity."

On August 5, 1948, notes were exchanged between the United States and Chinese Governments<sup>11</sup> providing for the establishment of a Joint Commission on Rural Reconstruction in China and defining the scope and terms of the program which the Commission might undertake. Authority was given the Commission to formulate and carry out a broad program, with emphasis on the educational aspects of improving agricultural techniques in rural areas. The three Chinese members of the Commission were appointed immediately after the exchange of notes and the two American members on September 16, 1948. The Commission formally assembled in Nanking on October

<sup>11</sup> See annex 183.

1 and, in accordance with a provision in the agreement, elected one of the Chinese members as its chairman.

#### PROGRESS OF THE ECONOMIC AID PROGRAM

The following brief summary of the accomplishments of the economic aid program is taken from a detailed account of the program published by the Economic Cooperation Administration in February 1949 entitled *Economic Aid under the China Aid Act of 1948*:<sup>12</sup>

"Food has been provided through a controlled ration system to nearly 13,000,000 inhabitants of seven major Chinese cities. Cotton financed under the program has kept the mills operating in China's largest industry, providing cloth for direct consumption, for barter to encourage the bringing of indigenous food into the cities, and for export to earn foreign exchange that can be used to pay for more imports. Petroleum has kept in operation basic industries, and also provided goods for which the farmers in the countryside are prepared to exchange their produce. Fertilizer imports have been planned for use in the production of spring crops in 1949. A Joint Commission on Rural Reconstruction has been established, and has formulated principles and a program for attacking some of the root causes of poverty and unrest among China's vast rural population. An industrial program of replacement machinery and reconstruction projects has been initiated with the participation of private American engineering firms; although actual procurement and construction had to be suspended for the most part due to uncertainties connected with the civil war, much useful engineering survey work has been done. A 'counter-part' fund in local currency, established by agreement with the Chinese Government and managed jointly by Chinese and Americans, has been used to maintain many hospitals, welfare programs, and dike-building projects.

"In spite of the growing chaos around them, these activities, by and large, have been managed with care and have been carried out successfully within their own limited terms of reference. In the case of the commodity program particularly, the supplies provided have been an important and at times crucial factor in keeping unrest to a minimum in the main cities of the coastal areas controlled by the Nationalist Government. In this narrow but significant sense, therefore, the efforts of ECA in China have been constructive and useful. Supplies financed by the United States have been and are being effectively distributed to the people intended to receive them."

Of the total 275 million dollar appropriation for economic aid to

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<sup>12</sup> See annex 184.



China, ECA originally had earmarked 203.8 million dollars for commodities, 67.5 million dollars for industrial and transportation reconstruction and replacement projects, 2.5 million dollars for dollar expenditures of the Joint Commission on Rural Reconstruction, and 1.2 million dollars for ECA administration. By April 3, 1949, the expiry date of the China Aid Act of 1948, 215.0 million dollars had been authorized for procurement of commodities, and about 139.2 million dollars of these supplies had arrived in China.

During the period of these expenditures, the economy of Nationalist China continued to deteriorate at an accelerating pace. The budgetary deficit was unquestionably much more serious in 1948 than in preceding years. The loss of territory to Communist forces, the further dislocation of transportation and productive facilities and a sharp increase in smuggling combined to reduce receipts from taxes, Government-operated enterprises and customs duties. Increased military expenditures were incurred as the civil war spread and mounted in intensity.

Prices in August 1948, as measured by the Shanghai wholesale price index, were more than 3 million times those of the prewar half year, January to June 1937. In the first 7 months of 1948 prices increased more than 45 times and the black market rate for United States dollar notes increased over 50 times. Moreover the rate of price increase for the period progressively exceeded the rate of expansion of the note issue, as confidence in the currency diminished, and accordingly the value of the total currency outstanding contracted in terms of purchasing power. This contraction of the purchasing power of an expanding note issue has been observed in the later stages of currency inflation in other countries.

Private capital was almost wholly directed into nonproductive channels of financial speculation and hoarding of commodities, and banks demonstrated an increasing reluctance to extend long-term credit for industrial investment. The loss of economic resources through contraction of the area controlled by the National Government was illustrated most significantly by the abandonment in December 1948 of the Kailan mines located near Tientsin. These mines had been supplying more than half of the coal consumed in all of Nationalist-controlled China.

In the mid-summer of 1948 there was a sharp increase in the velocity of currency circulation which sent prices to astronomical figures. The Chinese Government was unwilling to print new currency notes of sufficiently large denominations to keep pace with prices, and it had become impossible to print adequate quantities of currency of lower denominations, which had to be used in such bulk that bushel baskets

were required for currency transactions. The currency had become almost worthless as a medium of exchange.

On August 19, 1948, the Chinese Government announced the introduction of a new gold yuan currency to replace the old Chinese National currency at a ratio of G.Y.1 to C.N. 3 million. The rate of exchange for one United States dollar was set at G.Y. 4. The Government emphasized that introduction of the gold yuan would be accompanied by drastic financial reforms to curtail expenditures and increase revenue. It was represented that these reforms would reduce the budgetary deficit and the need for new note issue with the result that the internal purchasing power and the foreign exchange value of the new currency could be maintained.

Domestic prices and foreign exchange rates were pegged and drastic penalties prescribed for black market operations. The public was required to sell its gold, silver, and foreign currency notes in China to the Government at the pegged rates, and Chinese nationals were instructed to register with the Government all holdings of foreign exchange abroad. To bolster public confidence in the measures, the Government announced that, although the new currency was inconvertible, it was to be backed by gold, silver and other official foreign exchange holdings amounting to 200 million dollars and by the securities of certain Government-owned enterprises valued at 300 million dollars. Moreover, it was stated that the new note issue would be limited to G.Y. 2 billion.

The combination of stringent police measures and initial public confidence served for a few weeks to keep the Chinese economy functioning at the frozen price and foreign exchange levels of the August 19 reforms. The Government reported collection of more than 150 million dollars in foreign exchange for which it paid out new gold yuan.

It became evident shortly, however, that the Chinese Government was taking no effective action to curtail expenditures or to increase revenue, for new currency continued to be issued in the previous volume to cover the budgetary deficit. In addition, large quantities of gold yuan had been exchanged for foreign currencies and gold, much of which had heretofore been hoarded, and this added greatly to the total volume of currency competing for goods. Between August 19 and October 1 the note issue had increased almost five times.<sup>13</sup>

The continuing inflationary pressures revealed themselves first in West and North China where police enforcement was relatively ineffective. At Shanghai, however, Chiang Ching-kuo, the Gen-

<sup>13</sup> See annex 157 (a)-(c).



eralissimo's son, pursued a ruthless enforcement campaign. The price differential between the coastal cities and the hinterland and the maintenance of increasingly artificial foreign exchange rates, seriously impeded the movement of food and raw materials for urban consumption and export. Insistence on maintenance of the August 19 price levels, which was almost fanatical at Shanghai, resulted in the depletion of food and other commodity stocks in the cities to dangerously low levels, and brought about an almost complete stagnation of economic activity. Finally, the regulations became so ineffective and disruptive of economic activity that they were revoked officially in the face of a downward slide of the gold yuan which continued thereafter at a rapid rate. By late April and early May, 1949, the gold yuan, which had been introduced at a ratio of G.Y. 4 to U.S. \$1, had depreciated in the open market to quotations ranging between G.Y. 5 million and 10 million to U.S. \$1.

The ECA helped to alleviate the food crisis brought about by the extremes to which the Chinese Government's emergency reform measures of August 19 were carried. Steps were taken to speed up ECA deliveries of cereals and this proved to be of crucial importance in allaying unrest in the major cities. However, even after the reform measures were revoked, Chinese Government procurement of food for its share of the city rationing programs continued to lag seriously, and ECA thereafter provided a major portion of the ration requirements.

During the fall of 1948, the growing seriousness of the military situation in North China and Manchuria made it necessary for ECA to suspend preparatory work on industrial reconstruction and replacement projects located in those areas. In view of the rapid disintegration of the National Government military position which occurred shortly thereafter, the ECA Administrator announced on December 21, 1948, that work on the entire industrial program was, to a large extent, being suspended. At the time of suspension, all the projects were still in the preliminary engineering stage, no funds having been actually committed for procurement.

The impending fall of Peiping and Tientsin to Chinese Communist control confronted ECA with the problem of how its operations in North China should be handled in that event. ECA referred the matter to the Department of State, which took the position that ECA aid should be discontinued to areas of China that came under Chinese Communist control. On December 30, 1948, the President orally communicated to the Acting Secretary of State his confirmation of the

Department's position, which was recorded in the Department as follows:

"1. That this Government would continue to support through the implementation of the China Aid Act the present Chinese Government or a legal successor Government. However, should a government come into power which comes to terms with the Chinese Communists, all aid should cease irrespective of whether the Communists are in numerical ascendancy or not.

"2. When the Chinese Communists either directly or indirectly through a coalition government take control over any area, all ECA supplies ashore or in the process of being unloaded can be distributed under conditions similar to those now prevailing. However, ECA supplies which have not yet reached such ports should be diverted elsewhere.

"3. That the military supplies under the China Aid Act should be delivered in so far as possible in accordance with the advice of our military authorities in China."

The intention of the second sentence of numbered paragraph (1) quoted above was that aid should cease to those areas that came under the control of a government in which the Chinese Communists participated. On January 14, 1949, the President's decision was reviewed by the Cabinet, with the ECA Administrator present, at which time it was reaffirmed.

Tientsin fell to Chinese Communist assault on January 15, 1949, and a peaceful takeover of Peiping by the Chinese Communists occurred during the last days of January. Although ECA stocks in both cities were small at the time, the ECA representatives were prepared in accordance with the President's decision, to complete their distribution of existing stocks through channels previously agreed upon and under appropriate supervision. In both cities, however, the Chinese Communists seized ECA stocks of wheat and flour, which they distributed to selected groups of civilian workers rather than to the population generally. ECA stocks of cotton yarn and cloth at Tientsin were sealed by the Chinese Communists and ECA officers were unable to make any disposition of these stocks before their departure from the area on March 21, 1949.

Meanwhile, Generalissimo Chiang Kai-shek had retired from the scene in Nanking on January 21 and the reconstituted cabinet under the leadership of Acting President Li Tsung-jen was endeavoring to find a basis upon which peace negotiations could be carried on with the Chinese Communists. (These developments are treated in detail in chapter VI.)

The Chinese Government's official foreign exchange reserves at this



time consisted in large part of gold and silver bullion in China. The Central Bank reported at the end of the first quarter of 1949 total gold and silver holdings of approximately 160 million dollars, although other reliable sources indicated that such holdings were as much as 250 million dollars. The bulk of the bullion had been removed to Taiwan and Amoy before the Generalissimo retired. The Acting President later sent an emissary to see the Generalissimo to arrange for the return of the gold and silver and on April 15 the Control Yuan at Nanking passed a bill requesting their return to the Government. Although the Generalissimo subsequently made available to the Government at Nanking 17 million silver coins from stores at Amoy, efforts to obtain the use of the reserves at Amoy and Taiwan for emergency expenditures by Nanking were generally unavailing.

The Government at Nanking, in its search for means to retain some semblance of order in the increasingly chaotic administrative and financial conditions obtaining in the lower Yangtze valley, approached the United States Government frequently during the late winter and spring of 1949 seeking to obtain silver with which to meet its military and administrative expenditures. The proposals varied in detail from time to time, but essentially they all amounted to the advance of silver by the United States Government to underwrite the Chinese Government's budgetary deficit. The Departments of State and Treasury gave no encouragement to these Chinese proposals.

On March 23, the Embassy commented on a Chinese proposal for silver aid as follows:

"Although we agree that the financial situation is growing increasingly perilous, we can find no support on economic grounds for a currency stabilization loan. The intensifying currency crisis essentially arises from the internal budget deficit and not from the shortage of foreign exchange. The Eca commodity import program has substantially answered the latter phase of the problem.

"Any 'stabilization loan' at this time would be merely budget deficit assistance. The deficit is an internal Chinese problem and the Government has consistently proved unable or unwilling to act either to increase Government revenues or reduce expenses. The fact of the deficit alone is not the cause but the symptom of the fundamental imbalance between the tremendous demand arising from the weight of the Government's military structure, administrative incompetence and corruption, upon increasingly limited goods and services. No fiscal program involving quantitative money manipulations of the type monotonously recurring in the past as 'financial reform' can significantly affect this imbalance. We know of no Chinese Government

fiscal program proposed or in prospect which offers any possibility of effective results in meeting the monetary difficulties."

On April 6, the Ambassador reported as follows: "Both the Acting President and the Premier have again and separately raised the question of U. S. financial and economic assistance. The Prime Minister is still hoping to secure a silver loan from the U. S. and suggested a lien on the island of Taiwan, or on its products, as security. The Acting President, through his emissary . . . emphasized the imminent danger of collapse of the Government because of the fiscal situation; he asked if this did not warrant American aid sufficient to keep the Nationalist Government going at least through the peace talks. In response to the latter's comment, I felt compelled to speak frankly. I pointed out the difficulties from the American standpoint in securing financial assistance. I called attention to the well-known fact that the Chinese Government had reportedly something less than 300 million dollars in gold and silver bullion and foreign exchange; that most of this reserve existed, or was made possible, because of previous American aid; that it would seem natural to draw upon this fund for the present emergency. Our officials in Washington were, of course, fully aware of this reserve fund. I continued that if peace could be secured, it would not be too difficult for the new Government to build up a fresh reserve in an atmosphere of peace and a period of productive activity, that if the fighting were renewed, these reserves would either fall under control of the Communists or be consumed within a brief period of time in efforts toward further resistance."

#### CONTINUATION OF ECONOMIC AID BEYOND APRIL 3, 1949

On March 31 the Chinese Ambassador submitted to the Department of State proposals for the interim extension of the Eca Program beyond April 3 to June 30, 1949, and for a new economic aid program of 420 million dollars during the fiscal year 1950. These proposals were received while consideration was being given by Congress to recommendations from Eca and the Department of State regarding limited extension of the economic aid program for China. Careful consideration had been given during the early months of 1949 by Eca and the Department of State to the question of what recommendations should be made to Congress for continuation or cessation of American aid to China before the authority contained in the China Aid Act of 1948 expired on April 3, 1949. These studies were continued in early 1949. The following facts and observations were fundamental to a decision on this question.

Foreign aid authorized for the Chinese Government since V-J Day



had amounted to approximately 2,254 million dollars, of which the United States had provided 90 percent or slightly more than 2 billion dollars in the form of grants and credits. Aid authorized by the United States had been divided almost equally between military and economic purposes. Total American grants and credits since V-J Day had been equivalent in value to more than 50 percent of the monetary expenditures of the Chinese Government and was of proportionately greater magnitude in relation to the budget of that Government than the United States had provided to any nation of Western Europe since the end of the war. In addition to its aid in the form of grants and credits, the United States had sold the Chinese Government large quantities of military and civilian type surplus property for a nominal return. Surplus property with a total estimated procurement cost of over 1 billion dollars had been sold China for an agreed realization to the United States of 232 million dollars. Moreover, the United States had assisted the Chinese Government through the provision of military advisory personnel, and had "abandoned" and transferred substantial quantities of military material in China, for which there is no estimated dollar value. Finally, between V-J Day and the end of 1947, the Chinese Government had drawn down the largest gold and United States dollar reserves it had ever held by approximately 700 million dollars to finance commodity imports and the sale of gold within China.

The following summary table lists the various measures of foreign economic and military aid authorized for China since V-J Day. A more detailed description of the U. S. Government measures listed below is contained in annex 185.

#### I. U. S. Government Grants and Credits

<i>Grants:</i>	<i>(Millions of U. S. dollars)</i>
Lend-lease . . . . .	\$513. 7
Military aid under Sino-American Cooperative Organization Agreement . . . . .	17. 7
U. S. contribution to UNRRA China program . . . . .	474. 0
U. S. share of UNRRA contribution to BOTRA . . . . .	3. 6
Ammunition abandoned and transferred by U. S. Marines in North China (over 6,500 tons) (no estimate of value available).	
Transfer of U. S. Navy vessels (P. L. 512) (valued at procurement cost) . . . . .	141. 3
U. S. foreign relief program . . . . .	46. 4
ECA program . . . . .	275. 0
\$125 million grant under China Aid Act of 1948 . . . . .	125. 0
<b>TOTAL GRANTS . . . . .</b>	<b>\$1,596. 7</b>

## I. U. S. Government Grants and Credits—Continued

<i>Credits:</i>	(Millions of U. S. dollars)
Lend-lease . . . . .	\$181. 0
Lend-lease "pipe line" credit . . . . .	51. 7
Export-Import Bank credits . . . . .	82. 8
<i>Surplus property sales for credit:</i>	
Sale of excess stocks of U. S. Army in West China . . . . .	20. 0
OFLC dockyard facilities sales . . . . .	4. 1
Civilian surplus property transfers (under August 30, 1946, bulk sale agreement) . . . . .	55. 0
Maritime Commission Ship Sales . . . . .	16. 4
<b>TOTAL CREDITS.</b> . . . .	<b>\$411. 0</b>
<b>TOTAL GRANTS AND CREDITS.</b> . . . .	<b>\$2, 007. 7</b>

## II. Other Foreign Grants and Credits

Balance of UNRRA China program . . . . .	\$184. 4
Balance of UNRRA contribution to BOTRA . . . . .	1. 4
Canadian credit . . . . .	60. 0
<b>TOTAL OTHER FOREIGN AID</b> . . . . .	<b>\$245. 8</b>
<b>TOTAL FOREIGN GRANTS AND CREDITS SINCE V-J DAY</b> . . .	<b>\$2, 253. 5</b>

## III. U. S. Government Surplus Property Sales

(in millions of U. S. dollars)

	Procurement cost	Agreed realization to U. S.
Sale of excess stocks of U. S. Army in West China . . . . .	(Not available)	\$20
OFLC dockyard facilities sales. . . . .	" "	4. 1
Civilian surplus property transfers (under August 30, 1946, agreement) . . . . .	\$900	175.
Maritime Commission ship sales . . . . .	77. 3	26. 2
Military surplus property transfers . . . . .	100. 8	6. 7
<b>TOTAL SURPLUS PROPERTY SALES</b> . . . . .	<b>\$1, 078. 1</b>	<b><sup>1</sup>\$232. 0</b>

<sup>1</sup> Includes \$95.5 million to be paid on credit terms as indicated in Table I above under *credits*.

Despite provision of this foreign aid, the position of the Chinese Government had deteriorated steadily, both militarily and economically. The Chinese Government had failed to demonstrate its capacity to cope with the immense and complicated forces at work in China. In the fields of economic policy and civil and military administration, the Chinese Government had undertaken no effective initial steps



directed toward correcting the basic maladjustments of the Chinese economy and the malpractices of its administration. Governmental expenditures and the issuance of the fiat paper money had proceeded at an uncontrolled and increasing rate. There had been no evidence of successful measures to augment revenue, nor had there been any evidence of elimination of maladministration in the civilian and military bureaucracy. The measures of attempted financial reform by the Government were poorly conceived, and in effect, had increased rather than retarded the rate of economic deterioration.

By March 1949, the military position of the Chinese Government had collapsed to the point where the Chinese Communists controlled the major centers of population and the railroads from Manchuria south to the Yangtze Valley and were in a position to take control of Nanking, Hankow and Shanghai by military or political means within a relatively short period of time, and on their own terms. The military collapse of the Chinese Government had for the most part been the consequence of inept leadership and lack of will to fight on the part of its armies, rather than of inadequate military supplies. The loss and abandonment of military matériel by Chinese Government forces had constituted a large source of military supply for the Chinese Communists. It was apparent that, unless there were an unexpected and unprecedented improvement in the administrative and military operations of the National Government and in the will to fight of its armies, the Chinese Communists would not have difficulty in expanding their control throughout the south and west of China if, as soon as they consolidated their position in the north, they chose to move southward. It was the considered judgment of responsible American Government observers in China that only the extension of unlimited American economic and military aid, involving extensive control of Chinese Government operations by American military and administrative personnel, and including the immediate employment of United States armed forces to block the southern advance of the Communists, would enable the National Government to maintain a foothold in South China against a determined advance by the Chinese Communists. It was believed that under the existing circumstances, however, involvement of the United States in the Chinese civil war by such action would be clearly contrary to American interests.

The above considerations led the Department of State to view unfavorably a bill (S. 1063) that had been introduced in the Senate calling for 1.5 billion dollars of military and economic aid for China. Upon a request by the Senate Foreign Relations Committee for comment on the bill, Secretary of State Acheson stated the Department's

views in a letter of March 15, 1949, to Senator Tom Connally, Chairman of the Committee.<sup>14</sup>

Although the relative military capabilities of the Chinese Government and the Chinese Communists were evident, the political situation was highly uncertain. Acting President Li Tsung-jen had entered into peace negotiations with the Chinese Communists, thus reflecting a widespread desire among the Chinese people for peace at all costs. The intentions of the Chinese Communists were far from clear. Although there was little that the United States could do to influence the course of events in China, it would have been inconsistent with the traditional relations between the United States and China for the United States, in the face of extreme adversity for the Chinese people, abruptly to cease on April 3, 1949, economic aid to the Chinese Government which it continued to recognize. It was believed that the United States should certainly continue its economic relief until the next harvest in areas of China that remained free of Communist domination.

The Department of State therefore supported an ECA proposal that Congress be requested to amend the China Aid Act of 1948 to permit obligation of existing appropriations until December 31, 1949. It was estimated that by April 3 there would remain approximately 54 million dollars unobligated, and that this sum would enable continuation of the commodity assistance program at the existing level to Central and South China and Taiwan substantially until the mid-summer harvest became available; that if, in the meantime, Nanking and Shanghai should come under Chinese Communist control, remaining funds might prove to be sufficient to continue commodity assistance for a longer period in South China and Taiwan. It was also believed that, in so far as funds were available, the rural reconstruction program should be continued in coastal and interior areas of China so long as circumstances made it possible to do so.

On April 14, 1949, the Congress passed legislation which, in effect, carried out the recommendations of ECA and the Department of State. Rather than amending the China Aid Act of 1948, Congress wrote new legislation which made available to the President such portion of the appropriation for economic aid as remained unobligated on April 3, 1949, or might subsequently be released from obligation. In view of the extreme fluidity and uncertainty of the situation in China, the new legislation authorized the President to use these funds in such manner and on such terms and conditions as he might determine for aid to those areas of China that remained free of

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<sup>14</sup> See annex 186.



Chinese Communist control. Moreover, the funds were made available for obligation through February 15, 1950, in order that the expiration of authority would occur while the next Congress was in session.

#### THE APPRAISAL OF ACTING PRESIDENT LI

Perhaps the aptest and most tragic summary of American intentions toward China and of the reasons for the present predicament of China was given by the Acting President, General Li Tsung-jen, himself. The first three paragraphs of a letter he wrote to President Truman on May 5, 1949, concern the events of the period with which this paper is concerned and read as follows:

"Throughout our war of resistance against Japanese aggression, the United States of America continuously extended to us her moral and material assistance, which enabled our country to carry on an arduous struggle of eight long years until final victory was achieved. The sincere friendship thus demonstrated by the United States has contributed not only to strengthen further the traditional ties between our two countries but to win the deep gratitude and unbounded goodwill of the people of China.

"This policy of friendly assistance was continued when some years ago General George C. Marshall, under instructions from your good self, took up the difficult task of mediation in our conflict with the Chinese Communists, to which he devoted painstaking effort. All this work was unfortunately rendered fruitless by the lack of sincerity on the part of both the then Government and the Chinese Communists.

"In spite of this, your country continued to extend its aid to our Government. It is regrettable that, owing to the failure of our then Government to make judicious use of this aid and to bring about appropriate political, economic and military reforms, your assistance has not produced the desired effect. To this failure is attributable the present predicament in which our country finds itself."





## *Annexes*





# *Annexes to Chapter I: A Century of American Policy, 1844-1943*

## 1

*Treaty of Wanghia (Cushing Treaty), July 3, 1844*<sup>1</sup>

[Extract]

### ARTICLE II

Citizens of the United States resorting to China for the purposes of commerce will pay the duties of import and export prescribed in the Tariff, which is fixed by and made a part of this Treaty. They shall, in no case, be subject to other or higher duties than are or shall be required of the people of any other nation whatever. Fees and charges of every sort are wholly abolished, and officers of the revenue, who may be guilty of exaction, shall be punished according to the laws of China. If the Chinese Government desire to modify, in any respect, the said tariff, such modifications shall be made only in consultation with Consuls or other functionaries thereto duly authorized in behalf of the United States, and with consent thereof. And if additional advantages or privileges, of whatever description be conceded hereafter by China to any other nation, the United States, and the citizens thereof, shall be entitled thereupon, to a complete, equal, and impartial participation in the same.

## 2

*Treaty of Tientsin (Reed Treaty), June 18, 1858*<sup>2</sup>

[Extract]

### ARTICLE XXX

The contracting parties hereby agree that should at any time the Ta Tsing Empire grant to any nation, or the merchants or citizens of any nation, any right, privilege or favor, connected either with navigation, commerce, political or other intercourse, which is not conferred by this treaty, such right, privilege and favor shall at once freely inure to the benefit of the United States, its public officers, merchants and citizens.

<sup>1</sup> Hunter Miller, ed., *Treaties and Other International Acts of the United States of America*, vol. 4, pp. 559, 560.

<sup>2</sup> *Ibid.*, vol. 7, pp. 793, 804.

## 3

*Treaty of Washington (Burlingame Treaty), July 28, 1868<sup>3</sup>*

[Extract]

## ARTICLE VI

Citizens of the United States visiting or residing in China shall enjoy the same privileges, immunities or exemptions in respect to travel or residence as may there be enjoyed by the citizens or subjects of the most favored nation ; and, reciprocally, Chinese subjects visiting or residing in the United States shall enjoy the same privileges, immunities and exemptions in respect to travel or residence as may there be enjoyed by the citizens or subjects of the most favored nation. But nothing herein contained shall be held to confer naturalization upon citizens of the United States in China, nor upon the subjects of China in the United States.

## 4

## The Open Door Notes

*Secretary Hay to the Ambassador in Great Britain (Choate)<sup>4</sup>*

WASHINGTON, September 6, 1899

SIR: The Government of Her Britannic Majesty has declared that its policy and its very traditions precluded it from using any privileges which might be granted it in China as a weapon for excluding commercial rivals, and that freedom of trade for Great Britain in that Empire meant freedom of trade for all the world alike. While conceding by formal agreements, first with Germany and then with Russia, the possession of "spheres of influence or interest" in China in which they are to enjoy special rights and privileges, more especially in respect of railroads and mining enterprises, Her Britannic Majesty's Government has therefore sought to maintain at the same time what is called the "open-door" policy, to insure to the commerce of the world in China equality of treatment within said "spheres" for commerce and navigation. This latter policy is alike urgently demanded by the British mercantile communities and by those of the United States, as it is justly held by them to be the only one which will improve existing conditions, enable them to maintain their positions in the markets of China, and extend their operations in the future. While the Government of the United States will in no way commit itself to a recognition of exclusive rights of any power within or control over any portion of the Chinese Empire under such agreements as have within the last year been made, it can not conceal its apprehension that under existing conditions there is a possibility, even a probability, of complications arising between the treaty powers which may imperil the rights insured to the United States under our treaties with China.

This Government is animated by a sincere desire that the interests of our citizens may not be prejudiced through exclusive treatment by any of the con-

<sup>3</sup> William M. Malloy, ed., *Treaties, Conventions, International Acts, Protocols and Agreements Between the United States of America and Other Powers*, vol. I, pp. 234, 236.

<sup>4</sup> *Foreign Relations of the United States*, 1899, p. 131. Similar instructions were sent to American Diplomatic Representatives at Paris, Berlin, St. Petersburg, Rome, and Tokyo.



trolling powers within their so-called "spheres of interest" in China, and hopes also to retain there an open market for the commerce of the world, remove dangerous sources of international irritation, and hasten thereby united or concerted action of the powers at Peking in favor of the administrative reforms so urgently needed for strengthening the Imperial Government and maintaining the integrity of China in which the whole western world is alike concerned. It believes that such a result may be greatly assisted by a declaration by the various powers claiming "spheres of interest" in China of their intentions as regards treatment of foreign trade therein. The present moment seems a particularly opportune one for informing Her Britannic Majesty's Government of the desire of the United States to see it make a formal declaration and to lend its support in obtaining similar declarations from the various powers claiming "spheres of influence" in China, to the effect that each in its respective spheres of interest or influence

First. Will in no wise interfere with any treaty port or any vested interest within any so-called "sphere of interest" or leased territory it may have in China.

Second. That the Chinese treaty tariff of the time being shall apply to all merchandise landed or shipped to all such ports as are within said "sphere of interest" (unless they be "free ports"), no matter to what nationality it may belong, and that duties so leviable shall be collected by the Chinese Government.

Third. That it will levy no higher harbor duties on vessels of another nationality frequenting any port in such "sphere" than shall be levied on vessels of its own nationality, and no higher railroad charges over lines built, controlled, or operated within its "sphere" on merchandise belonging to citizens or subjects of other nationalities transported through such "sphere" than shall be levied on similar merchandise belonging to its own nationals transported over equal distances.

The recent ukase of His Majesty the Emperor of Russia, declaring the port of Ta-lien-wan open to the merchant ships of all nations during the whole of the lease under which it is to be held by Russia, removing as it does all uncertainty as to the liberal and conciliatory policy of that power, together with the assurances given this Government by Russia, justifies the expectation that His Majesty will cooperate in such an understanding as is here proposed, and our ambassador at the court of St. Petersburg has been instructed accordingly to submit the propositions above detailed to His Imperial Majesty, and ask their early consideration. Copy of my instruction to Mr. Tower is herewith inclosed for your confidential information.

The action of Germany in declaring the port of Kiaochow a "free port," and the aid the Imperial Government has given China in the establishment there of a Chinese custom-house, coupled with the oral assurance conveyed the United States by Germany that our interests within its "sphere" would in no wise be affected by its occupation of this portion of the province of Shang-tung, tend to show that little opposition may be anticipated from that power to the desired declaration.

The interests of Japan, the next most interested power in the trade of China, will be so clearly served by the proposed arrangement, and the declaration of its statesmen within the last year are so entirely in line with the views here expressed, that its hearty cooperation is confidently counted on.

You will, at as early date as practicable, submit the considerations to Her Britannic Majesty's principal secretary of state for foreign affairs and request their immediate consideration.

I inclose herewith a copy of the instruction sent to our ambassador at Berlin bearing on the above subject.<sup>5</sup>

I have the honor to be [etc.]

JOHN HAY.

*Secretary Hay to American Diplomatic Representatives at London, Paris, Berlin, St. Petersburg, Rome, and Tokyo* <sup>6</sup>

WASHINGTON, March 20, 1900

SIR: The —— Government having accepted the declaration suggested by the United States concerning foreign trade in China, the terms of which I transmitted to you in my instruction No. —— of ——, and like action having been taken by all the various powers having leased territory or so-called "spheres of interest" in the Chinese Empire, as shown by the notes which I herewith transmit to you,<sup>7</sup> you will please inform the Government to which you are accredited that the condition originally attached to its acceptance—that all other powers concerned should likewise accept the proposals of the United States—having been complied with, this Government will therefore consider the assent given to it by —— as final and definitive.

You will also transmit to the minister for foreign affairs copies of the present inclosures,<sup>7</sup> and by the same occasion convey to him the expression of the sincere gratification which the President feels at the successful termination of these negotiations, in which he sees proof of the friendly spirit which animates the various powers interested in the untrammelled development of commerce and industry in the Chinese Empire, and a source of vast benefit to the whole commercial world.

I am [etc.]

JOHN HAY.

## 5

*Secretary Hay to American Diplomatic Representatives at Berlin, Paris, London, Rome, St. Petersburg, Vienna, Brussels, Madrid, Tokyo, The Hague, and Lisbon* <sup>8</sup>

WASHINGTON, July 3, 1900

In this critical posture of affairs in China it is deemed appropriate to define the attitude of the United States as far as present circumstances permit this to be done. We adhere to the policy initiated by us in 1857 of peace with the Chinese nation, of furtherance of lawful commerce, and of protection of lives and property of our citizens by all means guaranteed under extraterritorial treaty rights and by the law of nations. If wrong be done to our citizens we propose to hold the responsible authors to the uttermost accountability. We regard the condition at Peking as one of virtual anarchy, whereby power and responsibility are practically devolved upon the local provincial authorities. So long as they are not in overt collusion with rebellion and use their power to protect foreign life and property, we regard them as representing the Chinese people, with whom we seek to remain in peace and friendship. The purpose of the President is, as it has been heretofore, to act concurrently with the other

<sup>5</sup> Not printed.

<sup>6</sup> Foreign Relations, 1899, p. 142.

<sup>7</sup> Not printed.

<sup>8</sup> Foreign Relations 1900, p. 299.



powers; first, in opening up communication with Peking and rescuing the American officials, missionaries, and other Americans who are in danger; secondly, in affording all possible protection everywhere in China to American life and property; thirdly, in guarding and protecting all legitimate American interests; and fourthly, in aiding to prevent a spread of the disorders to the other provinces of the Empire and a recurrence of such disasters. It is of course too early to forecast the means of attaining this last result; but the policy of the Government of the United States is to seek a solution which may bring about permanent safety and peace to China, preserve Chinese territorial and administrative entity, protect all rights guaranteed to friendly powers by treaty and international law, and safeguard for the world the principle of equal and impartial trade with all parts of the Chinese Empire.

You will communicate the purport of this instruction to the minister for foreign affairs.

JOHN HAY.

# 6

## *Treaty Between the United States and China for the Extension of the Commercial Relations Between Them, Signed at Shanghai, October 8, 1903*<sup>9</sup>

The United States of America and His Majesty the Emperor of China, being animated by an earnest desire to extend further the commercial relations between them and otherwise to promote the interests of the peoples of the two countries, in view of the provisions of the first paragraph of Article XI of the final Protocol signed at Peking on the seventh day of September, A. D. 1901, whereby the Chinese Government agreed to negotiate the amendments deemed necessary by the foreign Governments to the treaties of commerce and navigation and other subjects concerning commercial relations, with the object of facilitating them, have for that purpose named as their Plenipotentiaries:—

The United States of America—

Edwin H. Conger, Envoy Extraordinary and Minister Plenipotentiary of the United States of America to China—

John Goodnow, Consul-General of the United States of America at Shanghai—

John F. Seaman, a Citizen of the United States of America resident at Shanghai—

And His Majesty the Emperor of China—

Lü Hai-huan, President of the Board of Public Works—

Sheng Hsüan-huai, Junior Guardian of the Heir Apparent. Formerly Senior Vice-President of the Board of Public Works—

who, having met and duly exchanged their full powers which were found to be in proper form, have agreed upon the following amendments to existing treaties of commerce and navigation formerly concluded between the two countries, and upon the subjects hereinafter expressed connected with commercial relations, with the object of facilitating them.

<sup>9</sup> *Ibid.*, 1903, p. 91.

## ARTICLE I

In accordance with international usage, and as the diplomatic representative of China has the right to reside in the capital of the United States, and to enjoy there the same prerogatives, privileges and immunities as are enjoyed by the similar representative of the most favored nation, the diplomatic representative of the United States shall have the right to reside at the capital of His Majesty the Emperor of China. He shall be given audience of His Majesty the Emperor whenever necessary to present his letters of credence or any communication from the President of the United States. At all such times he shall be received in a place and in a manner befitting his high position, and on all such occasions the ceremonial observed toward him shall be that observed toward the representatives of nations on a footing of equality, with no loss of prestige on the part of either.

The diplomatic representatives of the United States shall enjoy all the prerogatives, privileges and immunities accorded by international usage to such representatives, and shall in all respects be entitled to the treatment extended to similar representatives of the most favored nation.

The English text of all notes or dispatches from United States officials to Chinese officials, and the Chinese text of all from Chinese officials to United States officials shall be authoritative.

## ARTICLE II

As China may appoint consular officers to reside in the United States and to enjoy there the same attributes, privileges and immunities as are enjoyed by consular officers of other nations, the United States may appoint, as its interests may require, consular officers to reside at the places in the Empire of China that are now or that may hereafter be opened to foreign residence and trade. They shall hold direct official intercourse and correspondence with the local officers of the Chinese Government within their consular districts, either personally or in writing as the case may require, on terms of equality and reciprocal respect. These officers shall be treated with due respect by all Chinese authorities, and they shall enjoy all the attributes, privileges and immunities, and exercise all the jurisdiction over their nationals which are or may hereafter be extended to similar officers of the nation the most favored in these respects. If the officers of either government are disrespectfully treated or aggrieved in any way by the authorities of the other, they shall have the right to make representation of the same to the superior officers of their own government who shall see that full inquiry and strict justice be had in the premises. And the said consular officers of either nation shall carefully avoid all acts of offense to the officers and people of the other nation.

On the arrival of a consul duly accredited at any place in China opened to foreign trade it shall be the duty of the Minister of the United States to inform the Board of Foreign Affairs, which shall, in accordance with international usage, forthwith cause the proper recognition of the said consul and grant him authority to act.

## ARTICLE III

Citizens of the United States may frequent, reside and carry on trade, industries and manufactures, or pursue any lawful avocation, in all the ports or localities of China which are now open or may hereafter be opened to foreign residence and trade; and, within the suitable localities at those places which have been or may be set apart for the use and occupation of foreigners, they may



rent or purchase houses, places of business and other buildings, and rent or lease in perpetuity land and build thereon. They shall generally enjoy as to their persons and property all such rights, privileges and immunities as are or may hereafter be granted to the subjects or citizens of the nation the most favored in these respects.

#### ARTICLE IV

The Chinese Government, recognizing that the existing system of levying dues on goods in transit, and especially the system of taxation known as *likin*, impedes the free circulation of commodities to the general injury of trade, hereby undertakes to abandon the levy of *likin* and all other transit dues throughout the Empire and to abolish the offices, stations and barriers maintained for their collection and not to establish other offices for levying dues on goods in transit. It is clearly understood that, after the offices, stations and barriers for taxing goods in transit have been abolished, no attempt shall be made to re-establish them in any form or under any pretext whatsoever.

The Government of the United States, in return, consents to allow a surtax, in excess of the tariff rates for the time being in force, to be imposed on foreign goods imported by citizens of the United States and on Chinese produce destined for export abroad or coastwise. It is clearly understood that in no case shall the surtax on foreign imports exceed one and one-half times the import duty leviable in terms of the final Protocol signed by China and the Powers on the seventh day of September, A. D. 1901; that the payment of the import duty and surtax shall secure for foreign imports, whether in the hands of Chinese or foreigners, in original packages or otherwise, complete immunity from all other taxation, examination or delay; that the total amount of taxation, inclusive of the tariff export duty, leviable on native produce for export abroad shall, under no circumstances, exceed seven and one-half per centum *ad valorem*.

Nothing in this article is intended to interfere with the inherent right of China to levy such other taxes as are not in conflict with its provisions.

Keeping these fundamental principles in view, the High Contracting Parties have agreed upon the following method of procedure.

The Chinese Government undertakes that all offices, stations and barriers of whatsoever kind for collecting *likin*, duties, or such like dues on goods in transit, shall be permanently abolished on all roads, railways and waterways in the nineteen Provinces of China and the three Eastern Provinces. This provision does not apply to the native Customs offices at present in existence on the seaboard, at open ports where there are offices of the Imperial Maritime Customs, and on the land frontiers of China embracing the nineteen Provinces and the three Eastern Provinces.

Wherever there are offices of the Imperial Maritime Customs, or wherever such may be hereafter placed, native Customs offices may also be established, as well as at any point either on the seaboard or land frontiers.

The Government of the United States agrees that foreign goods on importation, in addition to the effective five per centum import duty as provided for in the Protocol of 1901, shall pay a special surtax of one and one-half times the amount of the said duty to compensate for the abolition of *likin*, of other transit dues besides *likin*, and of all other taxation on foreign goods, and in consideration of the other reforms provided for in this article.

The Chinese Government may recast the foreign export tariff with specific duties, as far as practicable, on a scale not exceeding five per centum *ad valorem*; but existing export duties shall not be raised until at least six months' notice has

been given. In cases where existing export duties are above five per centum, they shall be reduced to not more than that rate. An additional special surtax of one-half the export duty payable for the time being, in lieu of internal taxation of all kinds, may be levied at the place of original shipment or at the time of export on goods exported either to foreign countries or coastwise.

Foreign goods which bear a similarity to native goods shall be furnished by the Customs officers, if required by the owner, with a protective certificate for each package, on the payment of import duty and surtax, to prevent the risk of any dispute in the interior.

Native goods brought by junks to open ports, if intended for local consumption, irrespective of the nationality of the owner of the goods, shall be reported at the native Customs offices only, to be dealt with according to the fiscal regulations of the Chinese Government.

Machine-made cotton yarn and cloth manufactured in China, whether by foreigners at the open ports or by Chinese anywhere in China, shall as regards taxation be on a footing of perfect equality. Such goods upon payment of the taxes thereon shall be granted a rebate of the import duty and of two-thirds of the import surtax paid on the cotton used in their manufacture, if it has been imported from abroad, and of all duties paid thereon if it be Chinese grown cotton. They shall also be free of export duty, coast-trade duty and export surtax. The same principle and procedure shall be applied to all other products of foreign type turned out by machinery in China.

A member or members of the Imperial Maritime Customs foreign staff shall be selected by the Governors-General and Governors of each of the various provinces of the Empire for their respective provinces, and appointed in consultation with the Inspector General of Imperial Maritime Customs, for duty in connection with native Customs affairs to have a general supervision of their working.

Cases where illegal action is complained of by citizens of the United States shall be promptly investigated by an officer of the Chinese Government of sufficiently high rank, in conjunction with an officer of the United States Government, and an officer of the Imperial Maritime Customs, each of sufficient standing; and, in the event of it being found by the investigating officers that the complaint is well founded and loss has been incurred, due compensation shall be paid through the Imperial Maritime Customs. The high provincial officials shall be held responsible that the officer guilty of the illegal action shall be severely punished and removed from his post. If the complaint is shown to be frivolous or malicious, the complainant shall be held responsible for the expenses of the investigation.

When the ratifications of this Treaty shall have been exchanged by the High Contracting Parties hereto, and the provisions of this Article shall have been accepted by the Powers having treaties with China, then a date shall be agreed upon when the provisions of this Article shall take effect and an Imperial Edict shall be published in due form on yellow paper and circulated throughout the Empire of China setting forth the abolition of all *likin* taxation, duties on goods in transit, offices, stations and barriers for collecting the same, and of all descriptions of internal taxation on foreign goods, and the imposition of the surtax on the import of foreign goods and on the export of native goods, and the other fiscal changes and reforms provided for in this Article, all of which shall take effect from the said date. The Edict shall state that the provincial high officials are responsible that any official disregarding the letter or the spirit of its injunction shall be severely punished and removed from his post.



## ARTICLE V

The tariff duties to be paid by citizens of the United States on goods imported into China shall be as set forth in the schedule annexed hereto and made part of this Treaty, subject only to such amendments and changes as are authorized by Article IV of the present convention or as may hereafter be agreed upon by the High Contracting Parties hereto. It is expressly agreed, however, that citizens of the United States shall at no time pay other or higher duties than those paid by the citizens or subjects of the most favored nation.

Conversely, Chinese subjects shall not pay higher duties on their imports into the United States than those paid by the citizens or subjects of the most favored nation.

## ARTICLE VI

The Government of China agrees to the establishment by citizens of the United States of warehouses approved by the proper Chinese authorities as bonded warehouses at the several open Ports of China, for storage, re-packing, or preparation for shipment of lawful goods, subject to such necessary regulations for the protection of the revenue of China, including a reasonable scale of fees according to commodities, distance from the custom house and hours of working, as shall be made from time to time by the proper officers of the Government of China.

## ARTICLE VII

The Chinese Government, recognizing that it is advantageous for the country to develop its mineral resources, and that it is desirable to attract foreign as well as Chinese capital to embark in mining enterprises, agrees, within one year from the signing of this Treaty, to initiate and conclude the revision of the existing mining regulations. To this end China will, with all expedition and earnestness, go into the whole question of mining rules; and, selecting from the rules of the United States and other countries regulations which seem applicable to the condition of China, will recast its present mining rules in such a way as, while promoting the interests of Chinese subjects and not injuring in any way the sovereign rights of China, will offer no impediment to the attraction of foreign capital nor place foreign capitalists at a greater disadvantage than they would be under generally accepted foreign regulations; and will permit citizens of the United States to carry on in Chinese territory mining operations and other necessary business relating thereto provided they comply with the new regulations and conditions which will be imposed by China on its subjects and foreigners alike, relating to the opening of mines, the renting of mineral land, and the payment of royalty, and provided they apply for permits, the provisions of which in regard to necessary business relating to such operations shall be observed. The residence of citizens of the United States in connection with such mining operations shall be subject to such regulations as shall be agreed upon by and between the United States and China.

Any mining concession granted after the publication of such new rules shall be subject to their provisions.

## ARTICLE VIII

Drawback certificates for the return of duties shall be issued by the Imperial Maritime Customs to citizens of the United States within three weeks of the presentation to the Customs of the papers entitling the applicant to receive such drawback certificates, and they shall be receivable at their face value in payment of duties of all kinds (tonnage dues excepted) at the port

of issue; or shall, in the case of drawbacks on foreign goods re-exported within three years from the date of importation, be redeemable by the Imperial Maritime Customs in full in ready money at the port of issue, at the option of the holders thereof. But if, in connection with any application for a drawback certificate, the Customs authorities discover an attempt to defraud the revenue, the applicant shall be dealt with and punished in accordance with the stipulations provided in the Treaty of Tientsin, Article XXI, in the case of detected frauds on the revenue. In case the goods have been removed from Chinese territory, then the consul shall inflict on the guilty party a suitable fine to be paid to the Chinese Government.

#### ARTICLE IX

Whereas the United States undertakes to protect the citizens of any country in the exclusive use within the United States of any lawful trade-marks, provided that such country agrees by treaty or convention to give like protection to citizens of the United States:—

Therefore the Government of China, in order to secure such protection in the United States for its subjects, now agrees to fully protect any citizen, firm or corporation of the United States in the exclusive use in the Empire of China of any lawful trade-mark to the exclusive use of which in the United States they are entitled, or which they have adopted and used, or intend to adopt and use as soon as registered, for exclusive use within the Empire of China. To this end the Chinese Government agrees to issue by its proper authorities proclamations, having the force of law, forbidding all subjects of China from infringing on, imitating, colorably imitating, or knowingly passing off an imitation of trade-marks belonging to citizens of the United States, which shall have been registered by the proper authorities of the United States at such offices as the Chinese Government will establish for such purpose, on payment of a reasonable fee, after due investigation by the Chinese authorities, and in compliance with reasonable regulations.

#### ARTICLE X

The United States Government allows subjects of China to patent their inventions in the United States and protects them in the use and ownership of such patents. The Government of China now agrees that it will establish a Patent Office. After this office has been established and special laws with regard to inventions have been adopted it will thereupon, after the payment of the prescribed fees, issue certificates of protection, valid for a fixed term of years, to citizens of the United States on all their patents issued by the United States, in respect of articles the sale of which is lawful in China, which do not infringe on previous inventions of Chinese subjects, in the same manner as patents are to be issued to subjects of China.

#### ARTICLE XI

Whereas the Government of the United States undertakes to give the benefits of its copyright laws to the citizens of any foreign State which gives to the citizens of the United States the benefits of copyright on an equal basis with its own citizens:—

Therefore the Government of China, in order to secure such benefits in the United States for its subjects, now agrees to give full protection, in the same way and manner and subject to the same conditions upon which it agrees to protect



trade-marks, to all citizens of the United States who are authors, designers or proprietors of any book, map, print or engraving especially prepared for the use and education of the Chinese people, or translation into Chinese of any book, in the exclusive right to print and sell such book, map, print, engraving or translation in the Empire of China during ten years from the date of registration. With the exception of the books, maps, etc., specified above, which may not be reprinted in the same form, no work shall be entitled to copyright privileges under this article. It is understood that Chinese subjects shall be at liberty to make, print and sell original translations into Chinese of any works written or of maps compiled by a citizen of the United States. This article shall not be held to protect against due process of law any citizen of the United States or Chinese subject who may be author, proprietor, or seller of any publication calculated to injure the well-being of China.

#### ARTICLE XII

The Chinese Government having in 1898 opened the navigable inland waters of the Empire to commerce by all steam vessels, native or foreign, that may be specially registered for the purpose, for the conveyance of passengers and lawful merchandise, citizens, firms, and corporations of the United States may engage in such commerce on equal terms with those granted to subjects of any foreign power.

In case either party hereto considers it advantageous at any time that the rules and regulations then in existence for such commerce be altered or amended, the Chinese Government agrees to consider amicably and to adopt such modifications thereof as are found necessary for trade and for the benefit of China.

The Chinese Government agrees that, upon the exchange of the ratifications of this treaty, Mukden and Antung, both in the province of Sheng-king, will be opened by China itself as places of international residence and trade. The selection of suitable localities to be set apart for international use and occupation and the regulations for these places set apart for foreign residence and trade shall be agreed upon by the Governments of the United States and China after consultation together.

#### ARTICLE XIII

China agrees to take the necessary steps to provide for a uniform national coinage which shall be legal tender in payment of all duties, taxes, and other obligations throughout the Empire by the citizens of the United States as well as Chinese subjects. It is understood, however, that all customs duties shall continue to be calculated and paid on the basis of the Haikwan Tael.

#### ARTICLE XIV

The principles of the Christian religion, as professed by the Protestant and Roman Catholic Churches, are recognized as teaching men to do good and to do to others as they would have others do to them. Those who quietly profess and teach these doctrines shall not be harassed or persecuted on account of their faith. Any person, whether citizen of the United States or Chinese convert, who, according to these tenets, peaceably teaches and practices the principles of Christianity shall in no case be interfered with or molested therefor. No restrictions shall be placed on Chinese joining Christian churches. Converts and non-converts, being Chinese subjects, shall alike conform to the laws of China; and

shall pay due respect to those in authority, living together in peace and amity; and the fact of being converts shall not protect them from the consequences of any offense they may have committed before or may commit after their admission into the church, or exempt them from paying legal taxes levied on Chinese subjects generally, except taxes levied and contributions for the support of religious customs and practices contrary to their faith. Missionaries shall not interfere with the exercise by the native authorities of their jurisdiction over Chinese subjects; nor shall the native authorities make any distinction between converts and non-converts, but shall administer the laws without partiality, so that both classes can live together in peace.

Missionary societies of the United States shall be permitted to rent and to lease in perpetuity, as the property of such societies, buildings or lands in all parts of the Empire for missionary purposes and, after the title deeds have been found in order and duly stamped by the local authorities, to erect such suitable buildings as may be required for carrying on their good work.

#### ARTICLE XV

The Government of China having expressed a strong desire to reform its judicial system and to bring it into accord with that of Western nations, the United States agrees to give every assistance to such reform and will also be prepared to relinquish extra-territorial rights when satisfied that the state of the Chinese laws, the arrangements for their administration, and other considerations warrant it in so doing.

#### ARTICLE XVI

The Government of the United States consents to the prohibition by the Government of China of the importation into China of morphia and of instruments for its injection, excepting morphia and instruments for its injection imported for medical purposes, on payment of tariff duty, and under regulations to be framed by China which shall effectually restrict the use of such import to the said purposes. This prohibition shall be uniformly applied to such importation from all countries. The Chinese Government undertakes to adopt at once measures to prevent the manufacture in China of morphia and of instruments for its injection.

#### ARTICLE XVII

It is agreed between the high contracting parties hereto that all the provisions of the several treaties between the United States and China which were in force on the first day of January, A. D. 1900, are continued in full force and effect except in so far as they are modified by the present treaty or other treaties to which the United States is a party.

The present treaty shall remain in force for a period of ten years, beginning with the date of the exchange of ratifications and until a revision is effected as hereinafter provided.

It is further agreed that either of the high contracting parties may demand that the tariff and the articles of this convention be revised at the end of ten years from the date of the exchange of the ratifications thereof. If no revision is demanded before the end of the first term of ten years, then these articles in their present form shall remain in full force for a further term of ten years reckoned from the end of the first term, and so on for successive periods of ten years.



The English and Chinese texts of the present Treaty and its three annexes have been carefully compared; but, in the event of there being any difference of meaning between them, the sense as expressed in the English text shall be held to be the correct one.

This Treaty and its three annexes shall be ratified by the two High Contracting Parties in conformity with their respective constitutions, and the ratifications shall be exchanged in Washington not later than twelve months from the present date.

In testimony whereof, we, the undersigned, by virtue of our respective powers, have signed this Treaty in duplicate in the English and Chinese languages, and have affixed our respective seals.

Done at Shanghai, this eighth day of October in the year of our Lord one thousand nine hundred and three, and in the twenty ninth year of Kuang Hsü eighth month and eighteenth day.

EDWIN H. CONGER [SEAL.]

JOHN GOODNOW [SEAL.]

JOHN F. SEAMAN [SEAL.]

Signatures and seal of Chinese Plenipotentiaries.

[LÜ HAI-HUAN]

[SHENG HSÜAN-HUAI]

#### ANNEX I

As citizens of the United States are already forbidden by treaty to deal in or handle opium, no mention has been made in this Treaty of opium taxation.

As the trade in salt is a government monopoly in China, no mention has been made in this Treaty of salt taxation.

It is, however, understood, after full discussion and consideration, that the collection of inland dues on opium and salt and the means for the protection of the revenue therefrom and for preventing illicit traffic therein are left to be administered by the Chinese Government in such manner as shall in no wise interfere with the provisions of Article IV of this treaty regarding the unobstructed transit of other goods.

EDWIN H. CONGER [SEAL.]

JOHN GOODNOW [SEAL.]

JOHN F. SEAMAN [SEAL.]

Signatures and seal of Chinese Plenipotentiaries.

[LÜ HAI-HUAN]

[SHENG HSÜAN-HUAI]

#### ANNEX II

Article IV of the Treaty of Commerce between the United States and China of this date provides for the retention of the native Customs offices at the open ports. For the purpose of safeguarding the revenue of China at such places, it is understood that the Chinese Government shall be entitled to establish and maintain such branch native Customs offices at each open port, within a reasonable distance of the main native Customs offices at the port, as shall be deemed by the authorities of the Imperial Maritime Customs at that port necessary to collect the revenue from the trade into and out of such port. Such branches, as well as the main native Customs offices at each open port, shall be

administered by the Imperial Maritime Customs as provided by the Protocol of 1901.

EDWIN H. CONGER [SEAL.]

JOHN GOODNOW [SEAL.]

JOHN F. SEAMAN [SEAL.]

Signatures and seal of Chinese Plenipotentiaries.

[LÜ HAI-HUAN]

[SHENG HSÜAN-HUAI]

### ANNEX III

The schedule of tariff duties on imported goods annexed to this Treaty under Article V is hereby mutually declared to be the schedule agreed upon between the representatives of China and the United States and signed by John Goodnow for the United States and Their Excellencies Lü Hai-huan and Sheng Hsüan-huai for China at Shanghai on the sixth day of September, A. D. 1902, according to the Protocol of the seventh day of September, A. D. 1901.

EDWIN H. CONGER [SEAL.]

JOHN GOODNOW [SEAL.]

JOHN F. SEAMAN [SEAL.]

Signatures and seal of Chinese Plenipotentiaries.

[LÜ HAI-HUAN]

[SHENG HSÜAN-HUAI]

### 7

*Secretary Hay to American Diplomatic Representatives at Peking, St. Petersburg, and Tokyo*<sup>10</sup>

WASHINGTON, February 10, 1904

You will express to the minister of foreign affairs the earnest desire of the Government of the United States that in the course of the military operations which have begun between Russia and Japan the neutrality of China and in all practicable ways her administrative entity shall be respected by both parties, and that the area of hostility shall be localized and limited as much as possible, so that undue excitement and disturbance of the Chinese people may be prevented and the least possible loss to the commerce and peaceful intercourse of the world may be occasioned.

JOHN HAY.

### 8

*Secretary Hay to American Diplomatic Representatives at Vienna, Brussels, Paris, Berlin, London, Rome, and Lisbon*<sup>11</sup>

WASHINGTON, January 13, 1905

It has come to our knowledge that apprehension exists on the part of some of the powers that in the eventual negotiations for peace between Russia and Japan claim may be made for the concession of Chinese territory to neutral

<sup>10</sup> *Ibid.*, 1904, p. 2.

<sup>11</sup> *Ibid.*, 1905, p. 1.



powers. The President would be loath to share this apprehension, believing that the introduction of extraneous interests would seriously embarrass and postpone the settlement of the issues involved in the present contest in the Far East, thus making more remote the attainment of that peace which is so earnestly to be desired. For its part, the United States has repeatedly made its position well known, and has been gratified at the cordial welcome accorded to its efforts to strengthen and perpetuate the broad policy of maintaining the integrity of China and the "open door" in the Orient whereby equality of commercial opportunity and access shall be enjoyed by all nations. Holding these views the United States disclaims any thought of reserved territorial rights or control in the Chinese Empire, and it is deemed fitting to make this purpose frankly known and to remove all apprehension on this score so far as concerns the policy of this nation, which maintains so considerable a share of the Pacific commerce of China and which holds such important possessions in the western Pacific, almost at the gateway of China.

You will bring this matter to the notice of the government to which you are accredited, and you will invite the expression of its views thereon.

JOHN HAY.

9

Root-Takahira Agreement, November 30, 1908

*The Japanese Ambassador (Takahira) to Secretary Root*<sup>12</sup>

*Washington, November 30, 1908.*

SIR: The exchange of views between us, which has taken place at the several interviews which I have recently had the honor of holding with you, has shown that Japan and the United States holding important outlying insular possessions in the region of the Pacific Ocean, the Governments of the two countries are animated by a common aim, policy, and intention in that region.

Believing that a frank avowal of that aim, policy, and intention would not only tend to strengthen the relations of friendship and good neighborhood, which have immemorially existed between Japan and the United States, but would materially contribute to the preservation of the general peace, the Imperial Government have authorized me to present to you an outline of their understanding of that common aim, policy, and intention:

1. It is the wish of the two Governments to encourage the free and peaceful development of their commerce on the Pacific Ocean.

2. The policy of both Governments, uninfluenced by any aggressive tendencies, is directed to the maintenance of the existing status quo in the region above mentioned and to the defense of the principle of equal opportunity for commerce and industry in China.

3. They are accordingly firmly resolved reciprocally to respect the territorial possessions belonging to each other in said region.

4. They are also determined to preserve the common interest of all powers in China by supporting by all pacific means at their disposal the independence and integrity of China and the principle of equal opportunity for commerce and industry of all nations in that Empire.

5. Should any event occur threatening the status quo as above described or the principle of equal opportunity as above defined, it remains for the two

<sup>12</sup> *Ibid.*, 1908, p. 510.

Governments to communicate with each other in order to arrive at an understanding as to what measures they may consider it useful to take.

If the foregoing outline accords with the view of the Government of the United States, I shall be gratified to receive your confirmation.

I take [etc.]

K. TAKAHIRA.

*Secretary Root to the Japanese Ambassador (Takahira)*<sup>13</sup>

Washington, November 30, 1908.

EXCELLENCY: I have the honor to acknowledge the receipt of your note of to-day setting forth the result of the exchange of views between us in our recent interviews defining the understanding of the two Governments in regard to their policy in the region of the Pacific Ocean.

It is a pleasure to inform you that this expression of mutual understanding is welcome to the Government of the United States as appropriate to the happy relations of the two countries and as the occasion for a concise mutual affirmation of that accordant policy respecting the Far East which the two Governments have so frequently declared in the past.

I am happy to be able to confirm to your excellency, on behalf of the United States, the declaration of the two Governments embodied in the following words:

1. It is the wish of the two Governments to encourage the free and peaceful development of their commerce on the Pacific Ocean.

2. The policy of both Governments, uninfluenced by any aggressive tendencies, is directed to the maintenance of the existing status quo in the region above mentioned, and to the defense of the principle of equal opportunity for commerce and industry in China.

3. They are accordingly firmly resolved reciprocally to respect the territorial possessions belonging to each other in said region.

4. They are also determined to preserve the common interests of all powers in China by supporting by all pacific means at their disposal the independence and integrity of China and the principle of equal opportunity for commerce and industry of all nations in that Empire.

5. Should any event occur threatening the status quo as above described or the principle of equal opportunity as above defined, it remains for the two Governments to communicate with each other in order to arrive at an understanding as to what measures they may consider it useful to take.

Accept [etc.]

ELIHU ROOT.

10

*Memorandum by Secretary Knox on the Neutralization of the Manchurian Railways*<sup>14</sup>

Now that there has been signed and ratified by an unpublished imperial decree an agreement by which American and British interests are to cooperate in the financing and construction of the Chin Chou Tsitsihar Aigun Railroad, the

<sup>13</sup> *Ibid.* 1908, p. 511.

<sup>14</sup> *Ibid.*, 1910, p. 234. The Ambassador at London was instructed, on Nov. 6, 1909, to deliver the memorandum to the British Government. On Dec. 14, 1909, the American Diplomatic Representatives at Paris, Berlin, St. Petersburg, Tokyo, and Peking were instructed to present this proposal to the respective governments to which they were accredited.



Government of the United States is prepared cordially to cooperate with the British Government in diplomatically supporting and facilitating this, so important alike to the progress and the commercial development of China.

The Government of the United States would be disposed to favor ultimate participation to a proper extent on the part of other interested powers whose inclusion might be agreeable to China and which are known to support the principle of equality of commercial opportunity and the maintenance of the integrity of the Chinese Empire.

However, before the further elaboration of the actual arrangement the Government of the United States asks the British Government to give their consideration to the following alternative and more comprehensive projects:

1. Perhaps the most effective way to preserve the undisturbed enjoyment by China of all political rights in Manchuria and to promote the development of those Provinces under a practical application of the policy of the open door and equal commercial opportunity would be to bring the Manchurian highways and the railroad under an economic and scientific and impartial administration by some plan vesting in China the ownership of the railroads through funds furnished for that purpose by the interested powers willing to participate. Such loan should be for a period ample to make it reasonably certain that it could be met within the time fixed, and should be upon such terms as would make it attractive to bankers and investors. The plan should provide that nationals of the participating powers should supervise the railroad system during the term of the loan, and the Governments concerned should enjoy for such period the usual preferences for their nationals and materials upon an equitable basis *inter se*.

The execution of such a plan would naturally require the cooperation of China and of Japan and Russia, the reversionary and the concessionaries, respectively, of the existing Manchurian railroads, as well as that of Great Britain and the United States, whose special interests rest upon the existing contract relative to the Chin Chou Aigun Railroad.

The advantages of such a plan to Japan and to Russia are obvious. Both those powers, desiring in good faith to protect the policy of the open door and equal opportunity in Manchuria, and wishing to assure to China unimpaired sovereignty, might well be expected to welcome an opportunity to shift the separate duties, responsibilities, and expenses they have undertaken in the protection of their respective commercial and other interests for impartial assumption by the combined powers, including themselves, in proportion to their interests. The Government of the United States has some reason to hope that such a plan might meet favorable consideration on the part of Russia, and has reason to believe that American financial participation would be forthcoming.

2. Should this suggestion not be found feasible in its entirety, then the desired end would be approximated if not attained by Great Britain and the United States diplomatically supporting the Chin Chou Aigun arrangement and inviting interested powers friendly to the complete commercial neutrality of Manchuria to participate in the financing and construction of that line and of such additional lines as future commercial development may demand, and at the same time to supply funds for the purchase by China of such of the existing lines as might be offered for inclusion in this system.

The Government of the United States hopes that the principle involved in the foregoing suggestions may commend itself to His Britannic Majesty's Government. That principle finds support in the additional reasons that the consummation of some such plan would avoid the irritations likely to be engen-

dered by the uncontrolled direct negotiations of bankers with the Chinese Government, and also that it would create such community of substantial interest in China as would facilitate a cooperation calculated to simplify the problems, fiscal and monetary—reforms now receiving such earnest attention by the Imperial Chinese Government.

## 11

*Secretary Bryan to the Japanese Ambassador (Viscount Chinda)*<sup>15</sup>

WASHINGTON, March 13, 1915

EXCELLENCY: On February 8 last your excellency left with me at the Department a memorandum setting forth the demands which the Imperial Japanese Government felt obliged to make upon China, and on the 22d day of the same month your excellency delivered to me an additional memorandum presenting certain "requests" affecting the relations between the two countries which the Imperial Government has urged China to consider.

The American Government is glad to learn from these two communications of the Imperial Government that the "requests" were not presented to China as "demands" but that they were but "wishes" for which "friendly consideration" was asked on the part of China. The American Government understands from this distinction between the "demands" and the "requests" that the latter are not to be pressed if the Chinese Government should decline to consider them.

Inasmuch as these requests appear to have a bearing upon the traditional attitude of both the United States and Japan towards China, I desire to present to your excellency the following considerations of the Government of the United States relative to the effect which, it is thought, these demands and requests may have upon the relations of the United States with the Chinese Republic.

Reciprocating the frank and friendly character of the statements of the Imperial Japanese Government, the Government of the United States of America believes that an expression of its views with respect to these matters will be received by the Imperial Government in the same friendly spirit in which it is offered.

It will be recalled that in the year 1899 the Government of the United States requested the Governments of France, Germany, Great Britain, Italy, Russia and Japan to give their formal consent to three proposals:

First. They will in no way interfere with any treaty port or any vested interest within any so-called "sphere of interest" or leased territory they may have in China.

Second. The Chinese treaty tariff of the time being shall apply to all merchandise landed or shipped to all such ports as are within said "sphere of interest" (unless they be "free ports"), no matter to what nationality it may belong, and that duties so leviable shall be collected by the Chinese Government.

Third. They will levy no higher harbor dues on vessels of another nationality frequenting any port in such "sphere" than shall be levied on vessels of their own nationality, and no higher railroad charges over lines built, controlled, or operated within such "sphere" on merchandise belonging to citizens or subjects of other nationalities transported through such "sphere" than shall be levied on similar merchandise belonging to their own nationals transported over equal distances.

<sup>15</sup> *Ibid.*, 1915, p. 105.



On December 26, 1899, the Minister for Foreign Affairs addressed a note to the American Minister at Tokyo assuring the Minister—

that the Imperial Government will have no hesitation to give their assent to so just and fair a proposal of the United States, provided that all the other Powers concerned shall accept the same.

A similar acceptance was given on behalf of the other Powers approached.

On July 3, 1900, having been consulted by other Powers as to the course to be pursued in China as a result of the Boxer disturbances, this Government expressed its views in a circular communication to Austria-Hungary, France, Germany, Great Britain, Italy, Japan and Russia, stating that—

the policy of the Government of the United States is to seek a solution which may bring about permanent safety and peace to China, preserve Chinese territorial and administrative entity, protect all rights guaranteed to friendly Powers by treaty and international law, and safeguard for the world the principle of equal and impartial trade with all parts of the Chinese Empire.

In reply the Minister for Foreign Affairs of the Imperial Government expressed through the American Minister at Tokyo views in accord with those of the United States Government.

In the following month Great Britain and Germany signed an agreement defining their mutual policy in China:

I. It is a matter of joint and permanent international interest that the ports on the rivers and littoral of China should remain free and open to trade and to every other legitimate form of economic activity for the nationals of all countries without distinction, and the two Governments agree on their part to uphold the same for all Chinese territory so far as they can exercise influence.

II. Her Britannic Majesty's Government and the Imperial German Government will not on their part make use of the present complication to obtain for themselves any territorial advantages in Chinese dominions and will direct their policy towards maintaining undiminished the territorial conditions of the Chinese Empire.

This agreement being communicated by those Powers to Japan was acknowledged by the Imperial Government in a note containing the following language:

The Imperial Government having been assured by the contracting Powers that in adhering to the agreement in question they would be placed in relation to it in the same position as if they had been a signatory thereto, do not hesitate to declare formally their adherence to the said agreement and their acceptance of the principles embodied therein.

In 1901, when the Manchurian Convention was being negotiated by the Russian and Chinese Governments, involving the grant of certain exclusive privileges relating to the opening of mines and the building of railroads in Manchuria, the Japanese Minister called on the Secretary of State of the United States and said that the Japanese Government considered that the convention was a most undesirable thing because it was a violation of the understanding among all the Powers that the integrity of the Chinese Empire should be preserved, and that the Japanese Government was anxious that some means should be taken by the different Powers to induce China to delay the final signature of the convention beyond the period assigned by Russia as an ultimatum for signing.

On the same subject a circular note was sent by the United States to Belgium, China, France, Germany, Great Britain, Italy, Japan, the Netherlands, Russia and Spain, as follows:

An agreement by which China cedes to any corporation or company the exclusive right and privilege of opening mines, establishing railroads, or in any other way industrially developing Manchuria, can but be viewed with the gravest concern by the Government of the United States. It constitutes a monopoly, which is a distinct breach of the stipulations of treaties concluded between China and foreign Powers, and thereby seriously affects the rights of American citizens; it restricts their rightful trade and exposes it to being discriminated against, interfered with or otherwise jeopardized, and strongly tends towards permanently impairing the sovereign rights of China in this part of the Empire, and seriously interferes with her ability to meet her international obligations. Furthermore, such concession on the part of China will undoubtedly be followed by demands from other Powers for similar and equally exclusive advantages in other parts of the Chinese Empire, and the inevitable result must be the complete wreck of the policy of absolute equality of treatment of all nations in regard to trade, navigation, and commerce within the confines of the Empire.

On the other hand, the attainment by one Power of such exclusive privileges for a commercial organization of its nationality conflicts with the assurances repeatedly conveyed to this Government by the Imperial Russian Ministry of Foreign Affairs of the Imperial Government's intention to follow the policy of the open door in China, as advocated by the Government of the United States and accepted by all the Treaty Powers having commercial interests in that Empire.

It is for these reasons that the Government of the United States, animated now, as in the past, with the sincerest desire of insuring to the whole world the benefits of full and fair intercourse between China and the nations on a footing of equal rights and advantages to all, submits the above to the earnest consideration of the Imperial Governments of China and Russia, confident that they will give due weight to its importance and adopt such measures as will relieve the just and natural anxiety of the United States.

The foregoing constitute the beginnings of the policy of the United States and other Powers interested in the welfare of China for the maintenance of the territorial integrity and administrative entity of China, and equal opportunities in commerce and industries in her behalf. To this policy the Powers have generally given their formal acceptance and support.

It is only necessary to refer to the British-Japanese Treaty of 1902, the Japanese Declarations at the opening of the Russo-Japanese war, the British-Japanese Treaty of 1905, the Russo-Japanese Treaty of Portsmouth, of 1905, the Franco-Japanese Entente of 1907, and the Russo-Japanese Treaty of 1907, in which Japan confirmed her special interest in maintaining the political independence and territorial integrity of the Empire of China, and in securing equal opportunities to all nations in the commercial and industrial development of China.

Finally, the United States and Japan declared their policy in the Far East by an exchange of notes on November 30, 1908, between the Honorable Elihu Root, then Secretary of State, and Baron Kogoro Takahira, the Ambassador of Japan. These notes contain the following language:



4. They are also determined to preserve the common interest of all Powers in China by supporting by all pacific means at their disposal the independence and integrity of China and the principle of equal opportunity for commerce and industry of all nations in that Empire.

5. Should any event occur threatening the status quo as above described or the principle of equal opportunity as above defined, it remains for the two Governments to communicate with each other in order to arrive at an understanding as to what measures they may consider useful to take.

I assume that it is because they wish to act in the spirit of this agreement to communicate with each other in reference to any event which may threaten these principles that your excellency's Government has informed this Government of the above-mentioned proposals which have been made to China. It is with the same purpose also, and on the further ground that the United States feels itself under a moral obligation to the Powers whose pledges are deposited with it not to pass over in silence any threatened violation of these pledges, that I address this communication to you with a view to carrying out the agreement of 1908 in accordance with that mutual regard and friendship which inspired it.

The United States, confident that the principle of mutuality will be preserved by Japan, believes that it may rely upon the often repeated assurances of your excellency's Government relative to the independence, integrity and commerce of China, and that no steps will be taken contrary to the spirit of those assurances.

For two generations American missionaries and teachers have made sacrifices in behalf of religious and educational work in China. American capital has been invested and industries have been established in certain regions. The activity of Americans has never been political, but on the contrary has been primarily commercial with no afterthought as to their effect upon the governmental policy of China. As an outgrowth of these two interests Americans have become concerned in the legitimate participation in the economic development of China along broader lines. Many projects which in other countries are left to private enterprise are in China conducted necessarily under government direction. United States citizens and capital are thus engaged in certain public improvements, such as the Huai River conservancy, the Hukuang Railway project, etc. A fourth matter of great moment to the United States is its broad and extensive treaty rights with China. These in general relate to commercial privileges and to the protection of Americans in China. In view of these treaty rights and its increasing economic interests in China, this Government has noted with grave concern certain of the suggestions which Japan has, in the present critical stage of the growth and development of the new Republic, considered it advisable to lay before the Chinese Government. While on principle and under the treaties of 1844, 1858, 1868 and 1903 with China the United States has ground upon which to base objections to the Japanese "demands" relative to Shantung, South Manchuria, and East Mongolia, nevertheless the United States frankly recognizes that territorial contiguity creates special relations between Japan and these districts. This Government, therefore, is disposed to raise no question, at this time, as to Articles I and II of the Japanese proposals. Further, as to Article IV, and Article V, paragraphs 2, 5 and 7, this Government perceives no special menace to the existing rights and interests of the United States or of its citizens in China. On the other hand Article V, paragraph 4, restricting the purchase of arms and ammunition to purchases from Japan, and paragraph 6 contemplating a monopoly of the development of the province of Fukien, the United States Government considers, would, if they should become operative, be viola-

tions of the principle of equal opportunity for the commerce and industries of other nations. American citizens may claim a right to share in the commercial development not only in Fukien but in other provinces as well. The United States is not unmindful that many serious disadvantages would result to its commercial and industrial enterprises if special preference is given to one nation in the matter of concessions. An example is shown in the operation of the South Manchuria Railway whereby discriminations have been made for some time against freight brought into Manchuria in other than Japanese vessels. This case indicates the embarrassing results of concessions of a broad preference or option. The United States, as well as every other nation, has the right to have its citizens free to make contracts with the Central and Provincial Governments without having the exercise of their rights interrupted or regarded as unfriendly by a third power; for each American enterprise in China is treated on its own merits as to its usefulness and prospective benefit, and without any regard to the possible effect it might have on China's future political status in the Orient.

The rights and privileges, which are set forth in these two paragraphs and which Japan seeks to obtain from China, are in conflict with rights of Americans secured by treaties between the United States and China.

Article XV of the Treaty of 1844 reads as follows:

The former limitation of the trade of foreign nations to certain persons appointed at Canton by the Government and commonly called Hong-merchants, having been abolished, citizens of the United States, engaged in the purchase or sale of goods of import or export, are admitted to trade with any and all subjects of China without distinction; they shall not be subject to any new limitations, nor impeded in their business by monopolies or other injurious restrictions.

Article XXX of the Treaty of 1858 reads as follows:

The contracting parties hereby agree that should at any time the Ta Tsing Empire grant to any nation or the merchants or citizens of any nation, any right, privilege or favor, connected either with navigation, commerce, political or other intercourse which is not conferred by this treaty, such right, privilege and favor shall at once freely enure to the benefit of the United States, its public officers, merchants and citizens.

Article VIII of the Treaty of 1868 reads as follows:

The United States, always disclaiming and discouraging all practices of unnecessary dictation and intervention by one nation in the affairs or domestic administration of another, do hereby freely disclaim and disavow any intention or right to intervene in the domestic administration of China in regard to the construction of railroads, telegraphs or other material internal improvements. On the other hand, his Majesty, the Emperor of China, reserves to himself the right to decide the time and manner and circumstances of introducing such improvements within his dominions. With this mutual understanding it is agreed by the contracting parties that if at any time hereafter his Imperial Majesty shall determine to construct or cause to be constructed works of the character mentioned within the empire, and shall make application to the United States or any other western Power for facilities to carry out that policy, the United States will, in that case, designate and authorize suitable engineers to be employed by the Chinese Government, and will recommend to other nations an equal compliance with such application, the Chinese Government in that case



protecting such engineers in their persons and property, and paying them a reasonable compensation for their service.

Articles III and VII of the Treaty of 1903 read as follows:

Article III. Citizens of the United States may frequent, reside and carry on trade, industries and manufactures, or pursue any lawful avocation, in all the ports or localities of China which are now open or may hereafter be opened to foreign residence and trade; and within the suitable localities at those places which have been or may be set apart for the use and occupation of foreigners, they may rent or purchase houses, places of business and other buildings, and rent or lease in perpetuity land and build thereon. They shall generally enjoy as to their persons and property all such rights, privileges and immunities as are or may hereafter be granted to the subjects or citizens of the nation the most favored in these respects.

Article VII. The Chinese Government, recognizing that it is advantageous for the country to develop its mineral resources, and that it is desirable to attract foreign as well as Chinese capital to embark in mining enterprises, agrees, within one year from the signing of this treaty, to initiate and conclude the revision of the existing mining regulations. To this end China will, with all expedition and earnestness, go into the whole question of mining rules; and, selecting from the rules of the United States and other countries regulations which seem applicable to the condition of China, will recast its present mining rules in such a way as, while promoting the interests of Chinese subjects and not injuring in any way the sovereign rights of China, will offer no impediment to the attraction of foreign capital nor place foreign capitalists at a greater disadvantage than they would be under generally accepted foreign regulations; and will permit citizens of the United States to carry on in Chinese territory mining operations and other necessary business relating thereto provided they comply with the new regulations and conditions which will be imposed by China on its subjects and foreigners alike, relating to the opening of mines, the renting of mineral land, and the payment of royalty, and provided they apply for permits, the provisions of which in regard to necessary business relating to such operations shall be observed. The residence of citizens of the United States in connection with such mining operations shall be subject to such regulations as shall be agreed upon by and between the United States and China.

Any mining concessions granted after the publication of such new rules shall be subject to their provisions.

It is manifest that these articles including "most favored nation" treatment entitle Americans to claim from China the same rights as those which Japan now seeks to have granted exclusively to her subjects.

It remains to call attention to Article III forbidding the alienation or lease of any port, harbor or island on the coast of China, and to Article V, paragraph 1, requiring China to employ competent Japanese subjects as advisers for conducting administrative, financial and military affairs, and paragraph 3 suggesting the joint policing of China, "where it is deemed necessary."

With reference to the first of these three proposals, Baron Kato has explained to the American Ambassador at Tokyo that Japan has no desire for a naval station on the coast of China, either at Tsingtau, or south of that point, as it would be valueless to her, but that it would however object to another nation having such a station. With reference to the employment of advisers the United States believes it may be assumed that the Chinese Government will not discriminate

unfairly in their selection, although it should be pointed out that this Government understands that Japan has six out of twenty-five advisers to the Republic representing eight nations. In respect to the proposed joint policing of certain places where there has been some friction between Japanese and Chinese, this Government feels apprehensive that this plan, instead of tending to lessen such friction might create greater difficulties than those which it is desired to remove.

But what is more important is the fact that these proposals, if accepted by China, while not infringing the territorial integrity of the Republic, are clearly derogatory to the political independence and administrative entity of that country. The same is in a measure true of Paragraph 4 of Article V relative to the purchase of arms. It is difficult for the United States, therefore, to reconcile these requests with the maintenance of the unimpaired sovereignty of China, which Japan, together with the United States and the Great Powers of Europe, has reaffirmed from time to time during the past decade and a half in formal declarations, treaties and exchanges of diplomatic notes. The United States, therefore, could not regard with indifference the assumption of political, military or economic domination over China by a foreign Power, and hopes that your excellency's Government will find it consonant with their interests to refrain from pressing upon China an acceptance of proposals which would, if accepted, exclude Americans from equal participation in the economic and industrial development of China and would limit the political independence of that country.

The United States is convinced that an attempt to coerce China to submit to these proposals would result in engendering resentment on the part of the Chinese and opposition by other interested Powers, thereby creating a situation which this Government confidently believes the Imperial Government do not desire.

The United States Government embraces this opportunity to make known that it has viewed the aspirations of Japan in the Far East with that friendship and esteem which have characterized the relations of the two nations in the past. This Government cannot too earnestly impress upon your excellency's Government that the United States is not jealous of the prominence of Japan in the East or of the intimate cooperation of China and Japan for their mutual benefit. Nor has the United States any intention of obstructing or embarrassing Japan, or of influencing China in opposition to Japan. On the contrary the policy of the United States, as set forth in this note, is directed to the maintenance of the independence, integrity and commercial freedom of China and the preservation of legitimate American rights and interests in that Republic.

Accept [etc.]

W. J. BRYAN.

12

*Secretary Bryan to the Ambassador in Japan (Guthrie)*<sup>18</sup>

WASHINGTON, May 11, 1915—5 p. m.

Please call upon the Minister for Foreign Affairs and present to him a note textually as follows:

"In view of the circumstances of the negotiations which have taken place and which are now pending between the Government of Japan and the Government of China, and of the agreements which have been reached as a result thereof, the Government of the United States has the honor to notify the Imperial Japanese Government that it cannot recognize any agreement or undertaking which

<sup>18</sup> *Ibid.*, 1915, p. 146.



has been entered into or which may be entered into between the Governments of Japan and China, impairing the treaty rights of the United States and its citizens in China, the political or territorial integrity of the Republic of China, or the international policy relative to China commonly known as the open door policy.

"An identical note has been transmitted to the Government of the Chinese Republic."

BRYAN.

13

Lansing-Ishii Agreement, November 2, 1917

*Secretary Lansing to Viscount Ishii, Japanese Ambassador on Special Mission*<sup>17</sup>

WASHINGTON, November 2, 1917.

EXCELLENCY: I have the honor to communicate herein my understanding of the agreement reached by us in our recent conversations touching the questions of mutual interest to our Governments relating to the Republic of China.

In order to silence mischievous reports that have from time to time been circulated, it is believed by us that a public announcement once more of the desires and intentions shared by our two Governments with regard to China is advisable.

The Governments of the United States and Japan recognize that territorial propinquity creates special relations between countries, and, consequently, the Government of the United States recognizes that Japan has special interests in China, particularly in the part to which her possessions are contiguous.

The territorial sovereignty of China, nevertheless, remains unimpaired and the Government of the United States has every confidence in the repeated assurances of the Imperial Japanese Government that while geographical position gives Japan such special interests they have no desire to discriminate against the trade of other nations or to disregard the commercial rights heretofore granted by China in treaties with other powers.

The Governments of the United States and Japan deny that they have any purpose to infringe in any way the independence or territorial integrity of China and they declare, furthermore, that they always adhere to the principle of the so-called "open door" or equal opportunity for commerce and industry in China.

Moreover, they mutually declare that they are opposed to the acquisition by any Government of any special rights or privileges that would affect the independence or territorial integrity of China or that would deny to the subjects or citizens of any country the full enjoyment of equal opportunity in the commerce and industry of China.

I shall be glad to have your excellency confirm this understanding of the agreement reached by us.

Accept [etc.]

ROBERT LANSING.

*Viscount Ishii, Japanese Ambassador on Special Mission, to Secretary Lansing*<sup>18</sup>

WASHINGTON, November 2, 1917.

SIR: I have the honor to acknowledge the receipt of your note of to-day, communicating to me your understanding of the agreement reached by us in our

<sup>17</sup> *Ibid.*, 1917, p. 264.

<sup>18</sup> *Ibid.*

recent conversations touching the questions of mutual interest to our Governments relating to the Republic of China.

I am happy to be able to confirm to you, under authorization of my Government, the understanding in question set forth in the following terms:

In order to silence mischievous reports that have from time to time been circulated, it is believed by us that a public announcement once more of the desires and intentions shared by our two Governments with regard to China is advisable.

The Governments of Japan and the United States recognize that territorial propinquity creates special relations between countries, and, consequently, the Government of the United States recognizes that Japan has special interests in China, particularly in the part to which her possessions are contiguous.

The territorial sovereignty of China, nevertheless, remains unimpaired and the Government of the United States has every confidence in the repeated assurances of the Imperial Japanese Government that while geographical position gives Japan such special interests they have no desire to discriminate against the trade of other nations or to disregard the commercial rights heretofore granted by China in treaties with other Powers.

The Governments of Japan and the United States deny that they have any purpose to infringe in any way the independence or territorial integrity of China and they declare, furthermore, that they always adhere to the principle of the so-called "open door" or equal opportunity for commerce and industry in China.

Moreover, they mutually declare that they are opposed to the acquisition by any government of any special rights or privileges that would affect the independence or territorial integrity of China or that would deny to the subjects or citizens of any country the full enjoyment of equal opportunity in the commerce and industry of China.

I take [etc.]

K. ISHII

# 14

## *Nine-Power Treaty Signed at Washington, February 6, 1922*<sup>19</sup>

The United States of America, Belgium, the British Empire, China, France, Italy, Japan, the Netherlands and Portugal:

Desiring to adopt a policy designed to stabilize conditions in the Far East, to safeguard the rights and interests of China, and to promote intercourse between China and the other Powers upon the basis of equality of opportunity;

Have resolved to conclude a treaty for that purpose and to that end have appointed as their respective Plenipotentiaries;

*The President of the United States of America:*

Charles Evans Hughes,  
Henry Cabot Lodge,  
Oscar W. Underwood,  
Elihu Root,  
citizens of the United States;

*His Majesty the King of the Belgians:*

Baron de Cartier de Marchienne, Commander of the Order of Leopold and of the Order of the Crown, His Ambassador Extraordinary and Plenipotentiary at Washington;

<sup>19</sup> *Ibid.*, 1922, vol. I, p. 276.



*His Majesty the King of the United Kingdom of Great Britain and Ireland and of the British Dominions beyond the Seas, Emperor of India:*

The Right Honourable Arthur James Balfour, O. M., M. P., Lord President of His Privy Council;

The Right Honourable Baron Lee of Fareham, G. B. E., K. C. B., First Lord of His Admiralty;

The Right Honourable Sir Auckland Campbell Geddes, K. C. B., His Ambassador Extraordinary and Plenipotentiary to the United States of America;

and

*for the Dominion of Canada:*

The Right Honourable Sir Robert Laird Borden, G. C. M. G., K. C.;

*for the Commonwealth of Australia:*

Senator the Right Honourable George Foster Pearce, Minister for Home and Territories;

*for the Dominion of New Zealand:*

The Honourable Sir John William Salmond, K. C., Judge of the Supreme Court of New Zealand;

*for the Union of South Africa:*

The Right Honourable Arthur James Balfour, O. M., M. P.;

*for India:*

The Right Honourable Valingman Sankaranarayana Srinivasa Sastri, Member of the Indian Council of State;

*The President of the Republic of China:*

Mr. Sao-Ke Alfred Sze, Envoy Extraordinary and Minister Plenipotentiary at Washington;

Mr. V. K. Wellington Koo, Envoy Extraordinary and Minister Plenipotentiary at London;

Mr. Chung-Hui Wang, former Minister of Justice.

*The President of the French Republic:*

Mr. Albert Sarraut, Deputy, Minister of the Colonies;

Mr. Jules J. Jusserand, Ambassador Extraordinary and Plenipotentiary to the United States of America, Grand Cross of the National Order of the Legion of Honour;

*His Majesty the King of Italy:*

The Honourable Carlo Schanzer, Senator of the Kingdom;

The Honourable Vittorio Rolandi Ricci, Senator of the Kingdom, His Ambassador Extraordinary and Plenipotentiary at Washington;

The Honourable Luigi Albertini, Senator of the Kingdom;

*His Majesty the Emperor of Japan:*

Baron Tomosaburo Kato, Minister for the Navy, Junii, a member of the First Class of the Imperial Order of the Grand Cordon of the Rising Sun with the Paulownia Flower;

Baron Kijuro Shidehara, His Ambassador Extraordinary and Plenipotentiary at Washington, Joshii, a member of the First Class of the Imperial Order of the Rising Sun;

Mr. Masanao Hanihara, Vice Minister for Foreign Affairs, Jushii, a member of the Second Class of the Imperial Order of the Rising Sun;

*Her Majesty the Queen of The Netherlands:*

Jonkheer Frans Beelaerts van Blokland, Her Envoy Extraordinary and Minister Plenipotentiary;

Jonkheer Willem Hendrik de Beaufort, Minister Plenipotentiary, Chargé d'Affaires at Washington;

*The President of the Portuguese Republic:*

Mr. José Francisco de Horta Machado da Franca, Viscount d'Alte, Envoy Extraordinary and Minister Plenipotentiary at Washington;

Mr. Ernesto Julio de Carvalho e Vasconcellos, Captain of the Portuguese Navy, Technical Director of the Colonial Office.

Who, having communicated to each other their full powers, found to be in good and due form, have agreed as follows:

#### ARTICLE I

The Contracting Powers, other than China, agree:

(1) To respect the sovereignty, the independence, and the territorial and administrative integrity of China;

(2) To provide the fullest and most unembarrassed opportunity to China to develop and maintain for herself an effective and stable government;

(3) To use their influence for the purpose of effectually establishing and maintaining the principle of equal opportunity for the commerce and industry of all nations throughout the territory of China;

(4) To refrain from taking advantage of conditions in China in order to seek special rights or privileges which would abridge the rights of subjects or citizens of friendly States, and from countenancing action inimical to the security of such States.

#### ARTICLE II

The Contracting Powers agree not to enter into any treaty, agreement, arrangement, or understanding, either with one another, or, individually or collectively, with any Power or Powers, which would infringe or impair the principles stated in Article I.

#### ARTICLE III

With a view to applying more effectually the principles of the Open Door or equality of opportunity in China for the trade and industry of all nations, the Contracting Powers, other than China, agree that they will not seek, nor support their respective nationals in seeking—

(a) any arrangement which might purport to establish in favour of their interests any general superiority of rights with respect to commercial or economic development in any designated region of China;

(b) any such monopoly or preference as would deprive the nationals of any other Power of the right of undertaking any legitimate trade or industry in China, or of participating with the Chinese Government, or with any local authority, in any category of public enterprise, or which by reason of its scope, duration or geographical extent is calculated to frustrate the practical application of the principle of equal opportunity.

It is understood that the foregoing stipulations of this Article are not to be so construed as to prohibit the acquisition of such properties or rights as may be necessary to the conduct of a particular commercial, industrial, or financial undertaking or to the encouragement of invention and research.

China undertakes to be guided by the principles stated in the foregoing stipulations of this Article in dealing with applications for economic rights and privileges from Governments and nationals of all foreign countries, whether parties to the present Treaty or not.



## ARTICLE IV

The Contracting Powers agree not to support any agreements by their respective nationals with each other designed to create Spheres of Influence or to provide for the enjoyment of mutually exclusive opportunities in designated parts of Chinese territory.

## ARTICLE V

China agrees that, throughout the whole of the railways in China, she will not exercise or permit unfair discrimination of any kind. In particular there shall be no discrimination whatever, direct or indirect, in respect of charges or of facilities on the ground of the nationality of passengers or the countries from which or to which they are proceeding, or the origin or ownership of goods or the country from which or to which they are consigned, or the nationality or ownership of the ship or other means of conveying such passengers or goods before or after their transport on the Chinese Railways.

The Contracting Powers, other than China, assume a corresponding obligation in respect of any of the aforesaid railways over which they or their nationals are in a position to exercise any control in virtue of any concession, special agreement or otherwise.

## ARTICLE VI

The Contracting Powers, other than China, agree fully to respect China's rights as a neutral in time of war to which China is not a party; and China declares that when she is a neutral she will observe the obligations of neutrality.

## ARTICLE VII

The Contracting Powers agree that, whenever a situation arises which in the opinion of any one of them involves the application of the stipulations of the present Treaty, and renders desirable discussion of such application, there shall be full and frank communication between the Contracting Powers concerned.

## ARTICLE VIII

Powers not signatory to the present Treaty, which have Governments recognized by the Signatory Powers and which have treaty relations with China, shall be invited to adhere to the present Treaty. To this end the Government of the United States will make the necessary communications to nonsignatory Powers and will inform the Contracting Powers of the replies received. Adherence by any Power shall become effective on receipt of notice thereof by the Government of the United States.

## ARTICLE IX

The present Treaty shall be ratified by the Contracting Powers in accordance with their respective constitutional methods and shall take effect on the date of the deposit of all the ratifications, which shall take place at Washington as soon as possible. The Government of the United States will transmit to the other Contracting Powers a certified copy of the *procès-verbal* of the deposit of ratifications.

The present Treaty, of which the French and English texts are both authentic, shall remain deposited in the archives of the Government of the United States, and duly certified copies thereof shall be transmitted by that Government to the other Contracting Powers.

IN FAITH WHEREOF the above-named Plenipotentiaries have signed the present Treaty.

DONE at the City of Washington the Sixth day of February One Thousand Nine Hundred and Twenty-Two.

	CHARLES EVANS HUGHES	[SEAL]
	HENRY CABOT LODGE	[SEAL]
	OSCAR W UNDERWOOD	[SEAL]
	ELIHU ROOT	[SEAL]
	BARON DE CARTIER DE MARCHIENNE	[SEAL]
	ARTHUR JAMES BALFOUR	[SEAL]
	LEE OF FAREHAM	[SEAL]
	A. C. GEDDES	[SEAL]
	R. L. BORDEN	[SEAL]
	G. F. PEARCE	[SEAL]
	JOHN W SALMOND	[SEAL]
	ARTHUR JAMES BALFOUR	[SEAL]
	V S SRINIVASA SASTRI	[SEAL]
[SEAL]	SAO-KE ALFRED SZE	
[SEAL]	V. K. WELLINGTON KOO	
[SEAL]	CHUNG-HUI WANG	
[SEAL]	A SARRAUT	
[SEAL]	JUSSERAND	
[SEAL]	CARLO SCHANZER	
[SEAL]	V. ROLANDI RICCI	
[SEAL]	LUIGI ALBERTINI	
	T. KATO	[SEAL]
	K. SHIDEHARA	[SEAL]
	M. HANIHARA	[SEAL]
	BEELAERTS VAN BLOKLAND	[SEAL]
	W. DE BEAUFORT	[SEAL]
	ALTE	[SEAL]
	ERNESTO DE VASCONCELLOS	[SEAL]

## 15

*Statement by Secretary Kellogg, January 27, 1927*<sup>20</sup>

At this time, when there is so much discussion of the Chinese situation, I deem it my duty to state clearly the position of the Department of State on the questions of tariff autonomy and the relinquishment of extraterritorial rights.

The United States has always desired the unity, the independence and prosperity of the Chinese nation. It has desired that tariff control and extraterritoriality provided by our treaties with China should as early as possible be released. It was with that in view that the United States made the declaration in relation to the relinquishment of extraterritoriality in the Treaty of 1903 and also entered into the Treaty of Washington of February 6, 1922, providing for a Tariff Conference to be held within three months after the coming into force of the Treaty.

<sup>20</sup> *Ibid.*, 1927, vol. II, p. 350.



The United States is now and has been, ever since the negotiation of the Washington Treaty, prepared to enter into negotiations with any Government of China or delegates who can represent or speak for China not only for the putting into force of the surtaxes of the Washington Treaty but entirely releasing tariff control and restoring complete tariff autonomy to China.

The United States would expect, however, that it be granted most favored nation treatment and that there should be no discrimination against the United States and its citizens in customs duties, or taxes, in favor of the citizens of other nations or discrimination by grants of special privileges and that the open door with equal opportunity for trade in China shall be maintained; and further that China should afford every protection to American citizens, to their property and rights.

The United States is prepared to put into force the recommendations of the Extraterritoriality Commission which can be put into force without a treaty at once and to negotiate the release of extraterritorial rights as soon as China is prepared to provide protection by law and through her courts to American citizens, their rights and property.

The willingness of the United States to deal with China in the most liberal spirit will be borne out by a brief history of the events since making the Washington Treaty. That Treaty was ratified by the last one of the Signatory Powers on July 7, 1925, and the exchange of ratifications took place in Washington on August 6, 1925. Before the treaties finally went into effect and on June 24, 1925, the Chinese Government addressed identic notes to the Signatory Powers asking for the revision of existing treaties. On the first of July 1925, I sent instructions to our Minister in Peking, which instructions I also communicated to all the other Governments, urging that this should be made the occasion of evidencing to the Chinese our willingness to consider the question of treaty revision. I urged that the Powers expedite preparations for the holding of the Special Conference regarding the Chinese customs tariff and stated that the United States believed that this special tariff conference should be requested, after accomplishing the work required by the Treaty to make concrete recommendations upon which a program for granting complete tariff autonomy might be worked out. The Delegates of the United States were given full powers to negotiate a new treaty recognizing China's tariff autonomy. At the same time, I urged the appointment of the Commission to investigate extraterritoriality, with the understanding that the Commission should be authorized to include in its report recommendations for the gradual relinquishment of extraterritorial rights. Prior to this, the Chinese Government urged the United States to use its influence with the interested Powers to hasten the calling of the Conference on Tariff Matters and the appointment of the Extraterritorial Commission and for each Government to grant to its representatives the broad power to consider the whole subject of the revision of the treaties and to make recommendations upon the subject of the abolition of extraterritorial rights. This was in harmony with the views of the United States. Accordingly, on September 4, 1925, the United States and each of the other Powers having tariff treaties with China evidenced their intention to appoint their delegates to the Tariff Conference. By a note which has been published, the Powers informed China of their willingness to consider and discuss any reasonable proposal that might be made by the Chinese Government on the revision of the treaties on the subject of the tariff and also announced their intention of appointing their representatives to the Extraterritorial Commission for the purpose of considering the whole subject of extraterritorial rights and authorizing them to make recommendations for the purpose of enabling the governments concerned

to consider what, if any, steps might be taken with a view to the relinquishment of extraterritorial rights. Delegates were promptly appointed and the Chinese Tariff Conference met on October 26, 1925.

Shortly after the opening of the Conference and on November 3, 1925, the American Delegation proposed that the Conference at once authorize the levying of a surtax of two and one-half per cent on necessities, and, as soon as the requisite schedules could be prepared, authorize the levying of a surtax of up to five per cent on luxuries, as provided for by the Washington Treaty. Our Delegates furthermore announced that the Government of the United States was prepared to proceed at once with the negotiation of such an agreement or agreements as might be necessary for making effective other provisions of the Washington Treaty of February 6, 1922. They affirmed the principle of respect for China's tariff autonomy and announced that they were prepared forthwith to negotiate a new treaty which would give effect to that principle and which should make provision for the abolition of likin, for the removal of tariff restrictions contained in existing treaties and for the putting into effect of the Chinese National Tariff Law. On November 19, 1925, the Committee on Provisional Measures of the Conference, Chinese delegates participating, unanimously adopted the following resolution:

"The Delegates of the Powers assembled at this Conference resolve to adopt the following proposed article relating to tariff autonomy with a view to incorporating it, together with other matters, to be hereafter agreed upon, in a treaty which is to be signed at this Conference.

"The Contracting Powers other than China hereby recognize China's right to enjoy tariff autonomy; agree to remove the tariff restrictions which are contained in existing treaties between themselves respectively and China; and consent to the going into effect of the Chinese National Tariff Law on January 1st, 1929.

"The Government of the Republic of China declares that likin shall be abolished simultaneously with the enforcement of the Chinese National Tariff Law; and further declares that the abolition of likin shall be effectively carried out by the First Day of the First Month of the Eighteenth Year of the Republic of China (January 1st, 1929)."

Continuously from the beginning of the Conference, our delegates and technical advisers collaborated with the delegates and technical advisers of the other Powers, including China, in an effort to carry out this plan,—viz. to put into effect the surtaxes provided for in the Washington Treaty, and to provide for additional tariff adequate for all of China's needs until tariff autonomy should go into effect. Until about the middle of April 1926, there was every prospect for the successful termination of the Conference to the satisfaction of the Chinese and the other Powers. About that time the Government which represented China at the Conference was forced out of power. The delegates of the United States and the other Powers, however, remained in China in the hope of continuing the negotiations and on July 3, 1926, made a declaration as follows:

"The Delegates of the foreign Powers to the Chinese Customs Tariff Conference met at the Netherlands Legation this morning. They expressed the unanimous and earnest desire to proceed with the work of the Conference at the earliest possible moment when the Delegates of the Chinese Government are in a position to resume discussion with the foreign Delegates of the problems before the Conference."



The Government of the United States was ready then and is ready now to continue the negotiations on the entire subject of the tariff and extraterritoriality or to take up negotiations on behalf of the United States alone. The only question is with whom it shall negotiate. As I have said heretofore, if China can agree upon the appointment of delegates representing the authorities or the people of the country, we are prepared to negotiate such a treaty. However, existing treaties which were ratified by the Senate of the United States cannot be abrogated by the President but must be superseded by new treaties negotiated with somebody representing China and subsequently ratified by the Senate of the United States.

The Government of the United States has watched with sympathetic interest the nationalistic awakening of China and welcomes every advance made by the Chinese people toward reorganizing their system of Government.

During the difficult years since the establishment of the new regime in 1912, the Government of the United States has endeavored in every way to maintain an attitude of the most careful and strict neutrality as among the several factions that have disputed with one another for control in China. The Government of the United States expects, however, that the people of China and their leaders will recognize the right of American citizens in China to protection for life and property during the period of conflict for which they are not responsible. In the event that the Chinese Authorities are unable to afford such protection, it is of course the fundamental duty of the United States to protect the lives and property of its citizens. It is with the possible necessity for this in view that American naval forces are now in Chinese waters. This Government wishes to deal with China in a most liberal spirit. It holds no concessions in China and has never manifested any imperialistic attitude toward that country. It desires, however, that its citizens be given equal opportunity with the citizens of the other Powers to reside in China and to pursue their legitimate occupations without special privileges, monopolies or spheres of special interest or influence.

## 16

*Treaty Between the United States and China Regulating Tariff Relations, Signed at Peiping, July 25, 1928* <sup>21</sup>

The United States of America and the Republic of China, both being animated by an earnest desire to maintain the good relations which happily subsist between the two countries, and wishing to extend and consolidate the commercial intercourse between them, have, for the purpose of negotiating a treaty designed to facilitate these objects, named as their Plenipotentiaries :—

The President of the United States of America :

J. V. A. MacMurray, Envoy Extraordinary and Minister Plenipotentiary of the United States of America to China ;

and the Government Council of the Nationalist Government of the Republic of China :

T. V. Soong, Minister of Finance of the Nationalist Government of the Republic of China ;

who, having met and duly exchanged their full powers, which have been found to be in proper form, have agreed upon the following treaty between the two countries :

<sup>21</sup> *Ibid.*, 1928, vol. II, p. 475.

## ARTICLE I

All provisions which appear in treaties hitherto concluded and in force between the United States of America and China relating to rates of duty on imports and exports of merchandise, drawbacks, transit dues and tonnage dues in China shall be annulled and become inoperative, and the principle of complete national tariff autonomy shall apply subject, however, to the condition that each of the High Contracting Parties shall enjoy in the territories of the other with respect to the above specified and any related matters treatment in no way discriminatory as compared with the treatment accorded to any other country.

The nationals of neither of the High Contracting Parties shall be compelled under any pretext whatever to pay within the territories of the other Party any duties, internal charges or taxes upon their importations and exportations other or higher than those paid by nationals of the country or by nationals of any other country.

The above provisions shall become effective on January 1, 1929, provided that the exchange of ratifications hereinafter provided shall have taken place by that date; otherwise, at a date four months subsequent to such exchange of ratifications.

## ARTICLE II

The English and Chinese texts of this Treaty have been carefully compared and verified; but, in the event of there being a difference of meaning between the two, the sense as expressed in the English text shall be held to prevail.

This treaty shall be ratified by the High Contracting Parties in accordance with their respective constitutional methods, and the ratifications shall be exchanged in Washington as soon as possible.

In testimony whereof, we, the undersigned, by virtue of our respective powers have signed this Treaty in duplicate in the English and Chinese languages and have affixed our respective seals.

Done at Peiping, the 25th day of July, 1928, corresponding to the 25th day of the 7th month of the 17th year of the Republic of China.

[SEAL]

J. V. A. MACMURRAY

[SEAL]

TSE VEN SOONG

## 17

*Secretary Stimson to the Ambassador in Japan (Forbes)*<sup>22</sup>

WASHINGTON, January 7, 1932—noon.

7. Please deliver to the Foreign Office on behalf of your Government as soon as possible the following note:

"With the recent military operations about Chinchow, the last remaining administrative authority of the Government of the Chinese Republic in South Manchuria, as it existed prior to September 18th, 1931, has been destroyed. The American Government continues confident that the work of the neutral commission recently authorized by the Council of the League of Nations will facilitate an ultimate solution of the difficulties now existing between China and Japan. But in view of the present situation and of its own rights and obligations therein, the American Government deems it to be its duty to notify both the Imperial

<sup>22</sup> *Foreign Relations of the United States, Japan, 1931-1941*, vol. I, p. 76.



Japanese Government and the Government of the Chinese Republic that it cannot admit the legality of any situation *de facto* nor does it intend to recognize any treaty or agreement entered into between those Governments, or agents thereof, which may impair the treaty rights of the United States or its citizens in China, including those which relate to the sovereignty, the independence, or the territorial and administrative integrity of the Republic of China, or to the international policy relative to China, commonly known as the open door policy; and that it does not intend to recognize any situation, treaty or agreement which may be brought about by means contrary to the covenants and obligations of the Pact of Paris of August 27, 1928, to which Treaty both China and Japan, as well as the United States, are parties."

State that an identical note is being sent to the Chinese government.

STIMSON

18

*Secretary Stimson to Senator Borah, Chairman of the Committee on Foreign Relations of the Senate, February 23, 1932*<sup>23</sup>

You have asked my opinion whether, as has been sometimes recently suggested, present conditions in China have in any way indicated that the so-called Nine Power Treaty has become inapplicable or ineffective or rightly in need of modification, and if so, what I considered should be the policy of this Government.

This Treaty, as you of course know, forms the legal basis upon which now rests the "Open Door" policy towards China. That policy, enunciated by John Hay in 1899, brought to an end the struggle among various powers for so-called spheres of interest in China which was threatening the dismemberment of that empire. To accomplish this Mr. Hay invoked two principles (1) equality of commercial opportunity among all nations in dealing with China, and (2) as necessary to that equality the preservation of China's territorial and administrative integrity. These principles were not new in the foreign policy of America. They had been the principles upon which it rested in its dealings with other nations for many years. In the case of China they were invoked to save a situation which not only threatened the future development and sovereignty of that great Asiatic people, but also threatened to create dangerous and constantly increasing rivalries between the other nations of the world. War had already taken place between Japan and China. At the close of that war three other nations intervened to prevent Japan from obtaining some of the results of that war claimed by her. Other nations sought and had obtained spheres of interest. Partly as a result of these actions a serious uprising had broken out in China which endangered the legations of all of the powers at Peking. While the attack on those legations was in progress, Mr. Hay made an announcement in respect to this policy as the principle upon which the powers should act in the settlement of the rebellion. He said

"The policy of the Government of the United States is to seek a solution which may bring about permanent safety and peace to China, preserve Chinese territorial and administrative entity, protect all rights guaranteed to friendly powers by treaty and international law, and safeguard for the world the principle of equal and impartial trade with all parts of the Chinese Empire."

He was successful in obtaining the assent of the other powers to the policy thus announced.

<sup>23</sup> *Ibid.*, p. 83.

In taking these steps Mr. Hay acted with the cordial support of the British Government. In responding to Mr. Hay's announcement, above set forth, Lord Salisbury, the British Prime Minister expressed himself "most emphatically as concurring in the policy of the United States."

For twenty years thereafter the Open Door policy rested upon the informal commitments thus made by the various powers. But in the winter of 1921 to 1922, at a conference participated in by all of the principal powers which had interests in the Pacific, the policy was crystallized into the so-called Nine Power Treaty, which gave definition and precision to the principles upon which the policy rested. In the first article of that Treaty, the contracting powers, other than China, agreed

1. To respect the sovereignty, the independence and the territorial and administrative integrity of China.

2. To provide the fullest and most unembarrassed opportunity to China to develop and maintain for herself an effective and stable government.

3. To use their influence for the purpose of effectually establishing and maintaining the principle of equal opportunity for the commerce and industry of all nations throughout the territory of China.

4. To refrain from taking advantage of conditions in China in order to seek special rights or privileges which would abridge the rights of subjects or citizens of friendly states, and from countenancing action inimical to the security of such states.

This Treaty thus represents a carefully developed and matured international policy intended, on the one hand, to assure to all of the contracting parties their rights and interests in and with regard to China, and on the other hand, to assure to the people of China the fullest opportunity to develop without molestation their sovereignty and independence according to the modern and enlightened standards believed to maintain among the peoples of this earth. At the time this Treaty was signed, it was known that China was engaged in an attempt to develop the free institutions of a self-governing republic after her recent revolution from an autocratic form of government; that she would require many years of both economic and political effort to that end; and that her progress would necessarily be slow. The Treaty was thus a covenant of self-denial among the signatory powers in deliberate renunciation of any policy of aggression which might tend to interfere with that development. It was believed—and the whole history of the development of the "Open Door" policy reveals that faith—that only by such a process, under the protection of such an agreement, could the fullest interests not only of China but of all nations which have intercourse with her best be served.

In its report to the President announcing this Treaty, the American Delegation, headed by the then Secretary of State, Mr. Charles E. Hughes, said

"It is believed that through this Treaty the 'Open Door' in China has at last been made a fact."

During the course of the discussions which resulted in the Treaty, the Chairman of the British delegation, Lord Balfour, had stated that

"The British Empire delegation understood that there was no representative of any power around the table who thought that the old practice of 'spheres of interest' was either advocated by any government or would be tolerable to this conference. So far as the British Government was concerned, they had, in the



most formal manner, publicly announced that they regarded this practice as utterly inappropriate to the existing situation."

At the same time the representative of Japan, Baron Shidehara, announced the position of his government as follows:

"No one denies to China her sacred right to govern herself. No one stands in the way of China to work out her own great national destiny."

The Treaty was originally executed by the United States, Belgium, the British Empire, China, France, Italy, Japan, the Netherlands and Portugal. Subsequently it was also executed by Norway, Bolivia, Sweden, Denmark and Mexico. Germany has signed it but her Parliament has not yet ratified it.

It must be remembered also that this Treaty was one of several treaties and agreements entered into at the Washington Conference by the various powers concerned, all of which were interrelated and interdependent. No one of these treaties can be disregarded without disturbing the general understanding and equilibrium which were intended to be accomplished and effected by the group of agreements arrived at in their entirety. The Washington Conference was essentially a disarmament conference, aimed to promote the possibility of peace in the world not only through the cessation of competition in naval armament but also by the solution of various other disturbing problems which threatened the peace of the world, particularly in the Far East. These problems were all interrelated. The willingness of the American government to surrender its then commanding lead in battleship construction and to leave its positions at Guam and in the Philippines without further fortification, was predicated upon, among other things, the self-denying covenants contained in the Nine Power Treaty, which assured the nations of the world not only of equal opportunity for their Eastern trade but also against the military aggrandizement of any other power at the expense of China. One cannot discuss the possibility of modifying or abrogating those provisions of the Nine Power Treaty without considering at the same time the other promises upon which they were really dependent.

Six years later the policy of self-denial against aggression by a stronger against a weaker power, upon which the Nine Power Treaty had been based, received a powerful reinforcement by the execution by substantially all the nations of the world of the Pact of Paris, the so-called Kellogg-Briand Pact. These two treaties represent independent but harmonious steps taken for the purpose of aligning the conscience and public opinion of the world in favor of a system of orderly development by the law of nations including the settlement of all controversies by methods of justice and peace instead of by arbitrary force. The program for the protection of China from outside aggression is an essential part of any such development. The signatories and adherents of the Nine Power Treaty rightly felt that the orderly and peaceful development of the 400,000,000 of people inhabiting China was necessary to the peaceful welfare of the entire world and that no program for the welfare of the world as a whole could afford to neglect the welfare and protection of China.

The recent events which have taken place in China, especially the hostilities which having been begun in Manchuria have latterly been extended to Shanghai, far from indicating the advisability of any modification of the treaties we have been discussing, have tended to bring home the vital importance of the faithful observance of the covenants therein to all of the nations interested in the Far East. It is not necessary in that connection to inquire into the causes of the controversy or attempt to apportion the blame between the two nations which are unhappily involved; for regardless of cause or responsibility, it is clear beyond

peradventure that a situation has developed which cannot, under any circumstances, be reconciled with the obligations of the covenants of these two treaties, and that if the treaties had been faithfully observed such a situation could not have arisen. The signatories of the Nine Power Treaty and of the Kellogg-Briand Pact who are not parties to that conflict are not likely to see any reason for modifying the terms of those treaties. To them the real value of the faithful performance of the treaties has been brought sharply home by the perils and losses to which their nationals have been subjected in Shanghai.

That is the view of this Government. We see no reason for abandoning the enlightened principles which are embodied in these treaties. We believe that this situation would have been avoided had these covenants been faithfully observed, and no evidence has come to us to indicate that a due compliance with them would have interfered with the adequate protection of the legitimate rights in China of the signatories of those treaties and their nationals.

On January 7th last, upon the instruction of the President, this Government formally notified Japan and China that it would not recognize any situation, treaty or agreement entered into by those governments in violation of the covenants of these treaties, which affected the rights of our Government or its citizens in China. If a similar decision should be reached and a similar position taken by the other governments of the world, a caveat will be placed upon such action which, we believe, will effectively bar the legality hereafter of any title or right sought to be obtained by pressure or treaty violation, and which, as has been shown by history in the past, will eventually lead to the restoration to China of rights and titles of which she may have been deprived.

In the past our Government, as one of the leading powers on the Pacific Ocean, has rested its policy upon an abiding faith in the future of the people of China and upon the ultimate success in dealing with them of the principles of fair play, patience, and mutual goodwill. We appreciate the immensity of the task which lies before her statesmen in the development of her country and its government. The delays in her progress, the instability of her attempts to secure a responsible government, were foreseen by Messrs. Hay and Hughes and their contemporaries and were the very obstacles which the policy of the Open Door was designed to meet. We concur with those statesmen, representing all the nations in the Washington Conference who decided that China was entitled to the time necessary to accomplish her development. We are prepared to make that our policy for the future.

Very truly yours,

HENRY L. STIMSON

19

*Statement by Secretary Hull, December 5, 1935*<sup>24</sup>

In reply to inquiries by press correspondents in regard to the "autonomy movement" in North China, Chinese and Japanese activities in relation thereto, and the American Government's attitude, the Secretary of State said:

There is going on in and with regard to North China a political struggle which is unusual in character and which may have far-reaching effects. The persons mentioned in reports of it are many; the action is rapid and covers a large area; opinions with regard to it vary; what may come of it no one could safely undertake to say; but, whatever the origin, whoever the agents, be what they may the methods, the fact stands out that an effort is being made—and is being resisted—

<sup>24</sup> *Ibid.*, p. 240.



to bring about a substantial change in the political status and condition of several of China's northern provinces.

Unusual developments in any part of China are rightfully and necessarily of concern not alone to the Government and people of China but to all of the many powers which have interests in China. For, in relations with China and in China, the treaty rights and the treaty obligations of the "treaty powers" are in general identical. The United States is one of those powers.

In the area under reference the interests of the United States are similar to those of other powers. In that area there are located, and our rights and obligations appertain to, a considerable number of American nationals, some American property, and substantial American commercial and cultural activities. The American Government is therefore closely observing what is happening there.

Political disturbances and pressures give rise to uncertainty and misgiving and tend to produce economic and social dislocations. They make difficult the enjoyment of treaty rights and the fulfillment of treaty obligations.

The views of the American Government with regard to such matters not alone in relation to China but in relation to the whole world are well known. As I have stated on many occasions, it seems to this Government most important in this period of world-wide political unrest and economic instability that governments and peoples keep faith in principles and pledges. In international relations there must be agreements and respect for agreements in order that there may be the confidence and stability and sense of security which are essential to orderly life and progress. This country has abiding faith in the fundamental principles of its traditional policy. This Government adheres to the provisions of the treaties to which it is a party and continues to bespeak respect by all nations for the provisions of treaties solemnly entered into for the purpose of facilitating and regulating, to reciprocal and common advantage, the contacts between and among the countries signatory.

## 20

*Press Release Issued by the Department of State on October 6, 1937*<sup>25</sup>

The Department of State has been informed by the American Minister to Switzerland of the text of the report adopted by the Advisory Committee of the League of Nations setting forth the Advisory Committee's examination of the facts of the present situation in China and the treaty obligations of Japan. The Minister has further informed the Department that this report was adopted and approved by the Assembly of the League of Nations today, October 6.

Since the beginning of the present controversy in the Far East, the Government of the United States has urged upon both the Chinese and the Japanese Governments that they refrain from hostilities and has offered to be of assistance in an effort to find some means, acceptable to both parties to the conflict, of composing by pacific methods the situation in the Far East.

The Secretary of State, in statements made public on July 16 and August 23, made clear the position of the Government of the United States in regard to international problems and international relationships throughout the world and as applied specifically to the hostilities which are at present unfortunately going on between China and Japan. Among the principles which in the opinion of the Government of the United States should govern international relationships,

<sup>25</sup> *Ibid.*, p. 396.

if peace is to be maintained, are abstinence by all nations from the use of force in the pursuit of policy and from interference in the internal affairs of other nations; adjustment of problems in international relations by process of peaceful negotiation and agreement; respect by all nations for the rights of others and observance by all nations of established obligations; and the upholding of the principle of the sanctity of treaties.

On October 5 at Chicago the President elaborated these principles, emphasizing their importance, and in a discussion of the world situation pointed out that there can be no stability or peace either within nations or between nations except under laws and moral standards adhered to by all; that international anarchy destroys every foundation for peace; that it jeopardizes either the immediate or the future security of every nation, large or small; and that it is therefore of vital interest and concern to the people of the United States that respect for treaties and international morality be restored.

In the light of the unfolding developments in the Far East, the Government of the United States has been forced to the conclusion that the action of Japan in China is inconsistent with the principles which should govern the relationships between nations and is contrary to the provisions of the Nine Power Treaty of February 6, 1922, regarding principles and policies to be followed in matters concerning China, and to those of the Kellogg-Briand Pact of August 27, 1928. Thus the conclusions of this Government with respect to the foregoing are in general accord with those of the Assembly of the League of Nations.

## 21

*The Ambassador in Japan (Grew) to Prince Konoye, Japanese Prime Minister and Minister for Foreign Affairs* <sup>26</sup>

No. 1076

TOKYO, October 6, 1938.

EXCELLENCY: On the occasion of the interview which Your Excellency accorded me on October 3, when I had the honor to convey orally the views and desires of my Government with regard to conditions in China being brought about by agencies or representatives of the Japanese Government, which are violative of or prejudicial to American rights and interests in China, I undertook to set forth and to extend those views and desires in a note to be presented shortly thereafter. In fulfillment of that undertaking and under instruction from my Government, I now have the honor to address Your Excellency as follows:

The Government of the United States has had frequent occasion to make representations to Your Excellency's Government in regard to action taken and policies carried out in China under Japanese to which the Government of the United States takes exception as being, in its opinion, in contravention of the principle and the condition of equality of opportunity or the "open door" in China. In response to these representations, and in other connections, both public and private, the Japanese Government has given categorical assurances that equality of opportunity or the open door in China will be maintained. The Government of the United States is constrained to observe, however, that notwithstanding the assurances of the Japanese Government in this regard violation by Japanese agencies of American rights and interests has persisted.

As having by way of illustration a bearing on the situation to which the Government of the United States desires to invite the attention of the Japanese

<sup>26</sup> *Ibid.*, p. 785.



Government, it is recalled that at the time of the Japanese occupation of Manchuria the Japanese Government gave assurances that the open door in Manchuria would be maintained. However, the principal economic activities in that area have been taken over by special companies which are controlled by Japanese nationals and which are established under special charters according them a preferred or exclusive position. A large part of American enterprise which formerly operated in Manchuria has been forced to withdraw from that territory as a result of the preferences in force there. Arrangements between Japan and the regime now functioning in Manchuria allow the free movement of goods and funds between Manchuria and Japan while restricting rigidly the movement of goods and funds between Manchuria and countries other than Japan.

This channeling of the movement of goods is effected primarily by means of exchange control exercised under the authority of regulations issued under an enabling law which provide expressly that for the purposes of the law Japan shall not be considered a foreign country nor the Japanese yen a foreign currency. In the opinion of my Government equality of opportunity or open door has virtually ceased to exist in Manchuria notwithstanding the assurances of the Japanese Government that it would be maintained in that area.

The Government of the United States is now apprehensive lest there develop in other areas of China which have been occupied by Japanese military forces since the beginning of the present hostilities a situation similar in its adverse effect upon the competitive position of American business to that which now exists in Manchuria.

On April 12, 1938 I had occasion to invite the attention of Your Excellency's predecessor to reports which had reached the Government of the United States indicating that discrimination in favor of Japanese trade with North China was likewise to be by means of exchange control and to ask for assurances that the Japanese Government would not support or countenance financial measures discriminating against American interests. Although the Minister for Foreign Affairs stated then that the Japanese Government would continue to support the principle of equal opportunity or open door in China no specific reply has yet been made by the Japanese Government on the subject of these representations.

The Government of the United States now learns that the Japanese authorities at Tsingtao have in effect established an exchange control, that they are exercising a discretionary authority to prohibit exports unless export bills are sold to the Yokohama Specie Bank, and that the Bank refuses to purchase export bills except at an arbitrary rate far lower than the open market rate prevailing at Tientsin and Shanghai. A somewhat similar situation apparently prevails at Chefoo. Furthermore, reports continue to reach the American Government that a comprehensive system of exchange control will soon be established throughout North China. Control of foreign exchange transactions gives control of trade and commercial enterprise, and the exacting, either directly or indirectly, by the Japanese authorities of control of exchange in North China would place those authorities in position to thwart equality of opportunity or free competition between Japan and the United States in that area. In such a situation, imports from and exports to the United States, as well as the choice of dealers in North China, would be entirely subjected to the dispensation of the Japanese authorities. Notwithstanding the short time that exchange control has been enforced in Tsingtao, two cases of discrimination have already been brought to the attention of the Government of the United States. In one instance an American dealer in a staple commodity has been unable to export to the United

States because Japanese authorities there have insisted that his export bills be sold to a Japanese bank at a price so far below the current rate of exchange of the Chinese currency in the open market that such transaction would involve a loss rather than a profit; but a Japanese competitor recently completed a large shipment invoiced at a price in United States dollars which was equivalent to the local market price calculated at the current open market rate. In the other instance, an American firm was prevented from purchasing tobacco in Shantung unless it should purchase so-called Federal Reserve notes or yen currency with foreign money and at an arbitrary and low rate of exchange, conditions not imposed upon the company's Japanese or Chinese competitors.

The Government of the United States has already pointed out to the Japanese Government that alterations of the Chinese customs tariff by the regimes functioning in those portions of China occupied by Japanese armed forces and for which the Japanese Government has formally assured its support are arbitrary and illegal assumptions of authority for which the Japanese Government has an inescapable responsibility. It is hardly necessary to add that there can be no equality of opportunity or open door in China so long as the ultimate authority to regulate, tax, or prohibit trade is exercised, whether directly or indirectly, by the authorities of one "foreign" power in furtherance of the interests of that power. It would appear to be self-evident that a fundamental prerequisite of a condition of equality of opportunity or open door in China is the absence in the economic life of that country of preferences or monopolistic rights operating directly or indirectly in favor of any foreign country or its nationals. On July 4 I spoke to General Ugaki of the desire of the American Government that there be avoided such restrictions and obstacles to American trade and other enterprises as might result from the setting up of special companies and monopolies in China. The Minister was so good as to state that the open door in China would be maintained and that the Government of the United States might rest assured that the Japanese Government would fully respect the principle of equal opportunity.

Notwithstanding these assurances, the Provisional regime in Peiping announced on July 30th the inauguration as of the following day of the China Telephone and Telegraph Company, the reported purpose of this organization being to control and to have exclusive operation of telephone and telegraph communications in North China. There was organized in Shanghai on July 31st the Central China Telecommunications Company, and the Special Service Section of the Japanese army has informed foreign cable and telegraph companies that the new company proposes to control all the telecommunications in Central China. According to a semi-official Japanese press report, there was organized at Shanghai on July 28 the Shanghai Inland Navigation Steamship Company to be controlled by Japanese the reported object of which is to control water transportation in the Shanghai delta area. According to information which has reached my Government, a Japanese company has been organized to take over and operate the wharves at Tsingtao which have hitherto been publicly owned and operated. Should such a development occur, all shipping of whatever nationality would become dependent upon a Japanese agency for allotments of space and stevedoring facilities. The wool trade in North China is now reported to be a Japanese monopoly and a tobacco monopoly in that area is reported to be in process of formation. Moreover, according to numerous reports which have been reaching my Government, the Japanese Government is proceeding with the organization of two special promotion companies which it has chartered and



which it will control with the object of investing in, unifying, and regulating the administration of certain large sectors of economic enterprise in China.

The developments of which I have made mention are illustrative of the apparent trend of Japanese policy in China and indicate clearly that the Japanese authorities are seeking to establish in areas which have come under Japanese military occupation general preferences for, and superiority of, Japanese interests, an inevitable effect of which will be to frustrate the practical application of the principle of the open door and deprive American nationals of equal opportunity.

I desire also to call Your Excellency's attention to the fact that unwarranted restrictions placed by the Japanese military authorities upon American nationals in China—notwithstanding the existence of American treaty rights in China and the repeated assurances of the Japanese Government that steps had been taken which would insure that American nationals, interests and property would not be subject to unlawful interference by Japanese authorities—further subject American interests to continuing serious inconvenience and hardships. Reference is made especially to the restrictions placed by the Japanese military upon American nationals who desire to reenter and reoccupy properties from which they have been driven by the hostilities and of which the Japanese military have been or still are in occupation. Mention may also be made of the Japanese censorship of and interference with American mail and telegrams at Shanghai and of restrictions upon freedom of trade, residence and travel by Americans, including the use of railways, shipping, and other facilities. While Japanese merchant vessels are carrying Japanese merchandise between Shanghai and Nanking, those vessels decline to carry merchandise of other countries, and American and other non-Japanese shipping is excluded from the lower Yangtze on the grounds of military necessity. Applications by American nationals for passes which would allow them to return to certain areas in the lower Yangtze valley have been denied by the Japanese authorities on the ground that peace and order have not been sufficiently restored, although many Japanese merchants and their families are known to be in those areas.

American nationals and their interests have suffered serious losses in the Far East arising from causes directly attributable to the present conflict between Japan and China, and even under the most favorable conditions an early rehabilitation of American trade with China cannot be expected. The American Government, therefore, finds it all the more difficult to reconcile itself to a situation in which American nationals must contend with continuing unwarranted interference with their rights at the hands of the Japanese authorities in China and with Japanese actions and policies which operate to deprive American trade and enterprise of equality of opportunity in China. It is also pertinent to mention that in Japan, too, American trade and other interests are undergoing severe hardships as a result of the industrial, trade, exchange and other controls which the Japanese Government has imposed incident to its military operations in China.

While American interests in the Far East have been thus treated at the hands of the Japanese authorities, the Government of the United States has not sought either in its own territory or in the territory of third countries to establish or influence the establishment of embargoes, import prohibitions, exchange controls, preferential restrictions, monopolies or special companies—designed to eliminate or having the effect of eliminating Japanese trade and enterprise. In its treatment of Japanese nationals and their trade and enterprise, the American Government has been guided not only by the letter and spirit of the Japanese-American Commercial Treaty of 1911 but by those fundamental principles of

international law and order which have formed the basis of its policy in regard to all peoples and their interests; and Japanese commerce and enterprise have continued to enjoy in the United States equality of opportunity.

Your Excellency cannot fail to recognize the existence of a great and growing disparity between the treatment accorded American nationals and their trade and enterprise by Japanese authorities in China and Japan and the treatment accorded Japanese nationals and their trade and enterprise by the Government of the United States in areas within its jurisdiction.

In the light of the situation herein reviewed the Government of the United States asks that the Japanese Government implement its assurances already given with regard to the maintenance of the open door and to non-interference with American rights by taking prompt and effective measures to cause,

(1) The discontinuance of discriminatory exchange control and of other measures imposed in areas in China under Japanese control which operate either directly or indirectly to discriminate against American trade and enterprise;

(2) The discontinuance of any monopoly or of any preference which would deprive American nationals of the right of undertaking any legitimate trade or industry in China or of any arrangement which might purport to establish in favor of Japanese interests any general superiority of rights with regard to commercial or economic development in any region of China; and

(3) The discontinuance of interference by Japanese authorities in China with American property and other rights including such forms of interference as censorship of American mail and telegrams and restrictions upon residence and travel by Americans and upon American trade and shipping.

The Government of the United States believes that in the interest of relations between the United States and Japan an early reply would be helpful.

I avail myself [etc.]

JOSEPH C. GREW

## 22

### *The Japanese Foreign Minister (Arita) to the Ambassador in Japan (Grew)* <sup>27</sup>

[Translation]

No. 102, American I

[Tokyo,] November 18, 1938.

EXCELLENCY: I have the honor to inform Your Excellency that I have carefully perused the contents of Your Excellency's note no. 1076, dated October 6th, addressed to the then Minister for Foreign Affairs Prince Konoye, concerning the rights and interests of the United States in China.

In this note, Your Excellency sets forth, on the basis of information in the possession of the Government of the United States, various instances in which Japanese authorities are subjecting American citizens in China to discriminatory treatment and are violating the rights and interests of the United States.

The views held by the Japanese Government with regard to these instances may be stated as follows:

1. According to the information in the possession of the Imperial Government, the circumstances which led to the adoption of such measures as those at present enforced in Tsingtao concerning export exchange, and the present situation being as set forth below, it is believed that those measures cannot be construed as constituting any discrimination against American citizens.

<sup>27</sup> *Ibid.*, p. 797.



A short time ago the Federal Reserve Bank of China was established in North China. This bank's notes, with foreign exchange value fixed at one shilling and two pence to one yuan, already have been issued to an amount of more than one hundred million yuan, and are being widely circulated. These bank notes being the legal currency required by the Provisional Government, the maintenance of their value and their smooth circulation is regarded as an indispensable basis for the conduct and development of economic activities in North China. Since the Japanese Government has, therefore, taken a cooperative attitude, all Japanese subjects are using those notes, and accordingly, even in their export trade are exchanging them at the rate of one shilling and two pence. On the other hand, the former legal currency still circulating in these areas has depreciated in exchange value to about eight pence per yuan. Consequently those who are engaged in export trade and are using this currency, are enjoying improper and excessive profits, as compared with those who are using Federal Reserve notes and carrying on legitimate transactions at the legally established rate of exchange. Japanese subjects and others who are using Federal Reserve notes have been suffering unreasonable and excessive losses as compared with those persons who use exclusively the former legal currency although residing and carrying on their businesses in the areas under the jurisdiction of the Provisional Government of North China. Furthermore, the existence of the above mentioned disparity between the foreign exchange value of the Federal Reserve notes and that of the former legal currency, which currency the Federal Reserve Bank has been and is exchanging at a rate almost on a par with its own notes, is bound to exert an unfavourable effect upon the exchange value of the Federal Reserve notes, and eventually also upon the exchange value of the Japanese yen. The Japanese Government therefore can not remain indifferent to such a situation.

In order to place the users of the former legal currency who have been obtaining improper and excessive profits on an equal footing with those using the Federal Reserve notes and at the same time to assist in the maintenance of the exchange value of the Federal Reserve Bank notes, represents an objective of those export exchange measures adopted at Tsingtao. Inasmuch as the application of the measures makes no differentiation according to nationality they are not at all discriminatory. As a matter of fact, it is through these measures that those users of the Federal Reserve notes who had in a sense been discriminated against have been placed on an equal footing with the others, and thus, for the first time on equal footing, are enabled to compete on an entirely equitable basis.

2. Some time ago the new regimes in North and Central China revised the Customs tariff rates seeking to secure a rational modification of the former tariff rates enforced by the Nationalist Government, because those rates were unduly high and not suitable for the promotion of the economic recovery and general welfare of the Chinese people. In any case, the schedule adopted is the one that was readily approved by the Powers in 1931, and was not calculated to inure to the benefit of any particular country. Accordingly no complaint has been heard from foreign residents of any nationality in China. The Japanese Government is, of course, in favor of the purpose of this revision, and believes that it will serve to promote effectively the trade of all countries with China.

3. As for the organization of certain promotion companies in China, the restoration and development of China's economic, financial and industrial activities following the present incident is a matter of the most urgent necessity for the welfare of the Chinese people. Moreover, the Japanese Government,

for the sake of the realization of a new order in East Asia, is exceedingly anxious for the prompt inauguration and progress of undertakings looking toward such restoration and development, and is devoting every constructive effort to realize this objective. The fact that the North China Development Company and the Central China Promotion Company were established represents nothing other than an offer to China of the necessary assistance for this restoration, and at the same time, an attempt to contribute to the development of the natural resources of China. It does not in any way impair the rights and interests of nationals of Your Excellency's country or in any way discriminate against their enterprises. The Japanese Government therefore, of course, has no intention of opposing, but rather welcomes heartily, the participation of third Powers which intend to cooperate on the basis of the new conditions.

The telecommunication companies in North and Central China, the inland navigation steamship company at Shanghai and the wharfage company at Tsingtao have also been established to meet the imperative need of an early restoration of communications, transportation, and harbor facilities which were destroyed as a result of the incident. It is proper that the telecommunications enterprise, not only because of its nature as a public utility but also in view of its relation to the maintenance of peace and order and to national defense, should be undertaken by special companies. However, all other enterprises being ordinary Chinese or Japanese juridical persons, do not have the objectives of discrimination against Your Excellency's country or third powers or of the gaining of monopolistic profits. As regards the wool trade, while the control of purchasing agencies was enforced in the Mongolian region, it now has been discontinued. There is at present no plan of any sort for the establishment of a tobacco monopoly.

4. Concerning the return of American citizens to the occupied areas, in North China there is no restriction on their returning, except in special cases where the personal safety of those who return would be endangered. Your Excellency is aware that in the Yangtze Valley large numbers of Americans have already returned. The fact that permission to return has not yet been made general is, as has been repeatedly communicated to Your Excellency, owing to considerations of the danger involved on account of order not yet being restored, or because of the impossibility of admitting nationals of third Powers on account of strategic necessities such as the preservation of military secrets. Further, the various restrictions enforced in the occupied areas concerning the residence, travel, enterprise and trade of American citizens, constitute the minimum regulations possible consistent with military necessities and the local conditions of peace and order. It is the intention of the Japanese Government to restore normal conditions as soon as circumstances permit.

5. The Japanese Government is surprised at the allegation that there exists a fundamental difference between the treatment accorded to Japanese in America and the treatment accorded to Americans in Japan. While it is true that in this period of emergency, Americans residing in this country are subject to various economic restrictions, these restrictions are, needless to say, imposed not upon Americans alone but also equally upon all foreigners as well as upon Japanese subjects. A statement of the views of the Japanese Government concerning the opinion as set forth in Your Excellency's note, regarding the treatment of Japanese subjects in American territory, is reserved for another occasion.

While the Japanese Government with the intention of fully respecting American rights and interests in China, as has been frequently stated above, has been



making every effort in that direction, in view of the fact that military operations on a scale unprecedented in our history are now being carried out in East Asia, I am of the opinion that the Government of Your Excellency's country also should recognize the fact that occasionally obstacles arise hindering the effecting of the intention of respecting the rights and interests of Your Excellency's country.

At present Japan, devoting its entire energy to the establishment of a new order based on genuine international justice throughout East Asia, is making rapid strides toward the attainment of this objective. The successful accomplishment of this purpose is not only indispensable to the existence of Japan, but also constitutes the very foundation of the enduring peace and stability of East Asia.

It is the firm conviction of the Japanese Government that now, at a time of the continuing development of new conditions in East Asia, an attempt to apply to present and future conditions without any changes concepts and principles which were applicable to conditions prevailing before the present incident does not in any way contribute to the solution of immediate issues and further does not in the least promote the firm establishment of enduring peace in East Asia.

The Imperial Government, however, does not have any intention of objecting to the participation in the great work of the reconstruction of East Asia by Your Excellency's country or by other Powers, in all fields of trade and industry, when such participation is undertaken with an understanding of the purport of the above stated remarks; and further, I believe that the regimes now being formed in China are also prepared to welcome such participation.

I avail myself [etc.]

HACHIRO ARITA

23

*The Ambassador in Japan (Grew) to the Japanese Foreign Minister  
(Arita)* <sup>28</sup>

No. 1153

Tokyo, December 30, 1938.

EXCELLENCY: Acting under the instructions of my Government I have the honor to address to Your Excellency the following note:

The Government of the United States has received and has given full consideration to the reply of the Japanese Government of November 18 to this Government's note of October 6 on the subject of American rights and interests in China.

In the light of facts and experience the Government of the United States is impelled to reaffirm its previously expressed opinion that imposition of restrictions upon the movements and activities of American nationals who are engaged in philanthropic, educational and commercial endeavors in China has placed and will, if continued, increasingly place Japanese interests in a preferred position and is, therefore, unquestionably discriminatory in its effect against legitimate American interests. Further, with reference to such matters as exchange control, compulsory currency circulation, tariff revision, and monopolistic promotion in certain areas of China the plans and practices of the Japanese authorities imply an assumption on the part of those authorities that the Japanese Government or the regimes established and maintained in China by Japanese armed forces are entitled to act in China in a capacity such as flows from rights of sovereignty and further in so acting to disregard and even to declare non-

<sup>28</sup> *Ibid.*, p. 820.

existent or abrogated the established rights and interests of other countries including the United States.

The Government of the United States expresses its conviction that the restrictions and measures under reference not only are unjust and unwarranted but are counter to the provisions of several binding international agreements, voluntarily entered into, to which both Japan and the United States, and in some cases other countries, are parties.

In the concluding portion of its note under reference, the Japanese Government states that it is firmly convinced that "in the face of the new situation, fast developing in Asia, any attempt to apply to the conditions of today and tomorrow inapplicable ideas and principles of the past neither would contribute toward the establishment of a real peace in East Asia nor solve the immediate issues" and that "as long as these points are understood Japan has not the slightest inclination to oppose the participation of the United States and other Powers in the great work of reconstructing East Asia along all lines of industry and trade."

The Government of the United States in its note of October 6 requested, in view of the oft reiterated assurances proffered by the Government of Japan of its intention to observe the principles of equality of opportunity in its relations with China and in view of Japan's treaty obligations so to do, that the Government of Japan abide by these obligations and carry out these assurances in practice. The Japanese Government in its reply appears to affirm that it is its intention to make its observance of that principle conditional upon an understanding by the American Government and by other governments of a "new situation" and a "new order" in the Far East as envisaged and fostered by Japanese authorities.

Treaties which bear upon the situation in the Far East have within them provisions relating to a number of subjects. In the making of those treaties, there was a process among the parties to them of give and take. Toward making possible the carrying out of some of their provisions, others among their provisions were formulated and agreed upon: toward gaining for itself the advantage of security in regard to certain matters, each of the parties committed itself to pledges of self-denial in regard to certain other matters. The various provisions agreed upon may be said to have constituted collectively an arrangement for safeguarding, for the benefit of all, the correlated principles on the one hand of national integrity and on the other hand of equality of economic opportunity. Experience has shown that impairment of the former of these principles is followed almost invariably by disregard of the latter. Whenever any government begins to exercise political authority in areas beyond the limits of its lawful jurisdiction there develops inevitably a situation in which the nationals of that government demand and are accorded, at the hands of their government, preferred treatment, whereupon equality of opportunity ceases to exist and discriminatory practices, productive of friction, prevail.

The admonition that enjoyment by the nationals of the United States of non-discriminatory treatment in China—a general and well-established right—is henceforth to be contingent upon an admission by the Government of the United States of the validity of the conception of Japanese authorities of a "new situation" and a "new order" in East Asia, is, in the opinion of this Government, highly paradoxical.

This country's adherence to and its advocacy of the principle of equality of opportunity do not flow solely from a desire to obtain the commercial benefits which naturally result from the provisions of that principle. They flow from a firm conviction that observance of that principle leads to economic and political



stability, which are conducive both to the internal well-being of nations and to mutually beneficial and peaceful relationships between and among nations; from a firm conviction that failure to observe that principle breeds international friction and ill-will, with consequences injurious to all countries, including in particular those countries which fail to observe it; and from an equally firm conviction that observance of that principle promotes the opening of trade channels thereby making available the markets, the raw materials and the manufactured products of the community of nations on a mutually and reciprocally beneficial basis.

The principle of equality of economic opportunity is, moreover, one to which over a long period and on many occasions the Japanese Government has given definite approval. It is one to the observance of which the Japanese Government has committed itself in various international agreements and understandings. It is one upon observance of which by other nations the Japanese Government has of its own accord and upon its own initiative frequently insisted. It is one to which the Japanese Government has repeatedly during recent months declared itself committed.

The people and the Government of the United States could not assent to the establishment at the instance of and for the special purposes of any third country of a regime which would arbitrarily deprive them of the long established rights of equal opportunity and fair treatment which are legally and justly theirs along with those of other nationals.

Fundamental principles such as the principle of equality of opportunity which have long been regarded as inherently wise and just which have been widely adopted and adhered to, and which are general in their application are not subject to nullification by a unilateral affirmation.

With regard to the implication in the Japanese Government's note that the "conditions of today and tomorrow" in the Far East call for a revision of the ideas and principles of the past, this Government desires to recall to the Japanese Government its position on the subject of revision of agreements.

This Government had occasion in the course of a communication delivered to the Japanese Government on April 29, 1934, to express its opinion that "treaties can lawfully be modified or be terminated—but only by processes prescribed or recognized or agreed upon by the parties to them".

In the same communication this Government also said, "In the opinion of the American people and the American Government, no nation can, without the assent of the other nations concerned, rightfully endeavor to make conclusive its will in situations where there are involved the rights, the obligations and the legitimate interests of other sovereign states". In an official and public statement on July 16, 1937, the Secretary of State of the United States declared that this Government advocates "adjustment of problems in international relations by processes of peaceful negotiation and agreement".

At various times during recent decades various powers, among which have been Japan and the United States, have had occasion to communicate and to confer with regard to situations and problems in the Far East. In the conducting of correspondence and of conferences relating to these matters, the parties involved have invariably taken into consideration past and present facts and they have not failed to perceive the possibility and the desirability of changes in the situation. In the making of treaties they have drawn up and have agreed upon provisions intended to facilitate advantageous developments and at the same time to obviate and avert the arising of friction between and among the various powers which, having interests in the region or regions under reference, were and would be concerned.

In the light of these facts, and with reference especially to the purpose and the character of the treaty provisions from time to time solemnly agreed upon for the very definite purposes indicated, the Government of the United States deprecates the fact that one of the parties to these agreements has chosen to embark—as indicated both by action of its agents and by official statements of its authorities—upon a course directed toward the arbitrary creation by that power by methods of its own selection, regardless of treaty pledges and the established rights of other powers concerned, of a “new order” in the Far East. Whatever may be the changes which have taken place in the situation in the Far East and whatever may be the situation now, these matters are of no less interest and concern to the American Government than have been the situations which have prevailed there in the past, and such changes as may henceforth take place there, changes which may enter into the producing of a “new situation” and a “new order”, are and will be of like concern to this Government. This Government is well aware that the situation has changed. This Government is also well aware that many of the changes have been brought about by the action of Japan. This Government does not admit, however, that there is need or warrant for any one Power to take upon itself to prescribe what shall be the terms and conditions of a “new order” in areas not under its sovereignty and to constitute itself the repository of authority and the agent of destiny in regard thereto.

It is known to all the world that various of the parties to treaties concluded for the purpose of regulating contacts in the Far East and avoiding friction therein and therefrom—which treaties contained, for those purposes, various restrictive provisions—have from time to time and by processes of negotiation and agreement contributed in the light of changed situations toward the removal of restrictions and toward the bringing about of further developments which would warrant in the light of further changes in the situation, further removals of restrictions. By such methods and processes, early restrictions upon the tariff autonomy of all countries in the Far East were removed. By such methods and processes the rights of extraterritorial jurisdiction once enjoyed by Occidental countries in relations with countries in the Far East have been given up in relations with all of those countries except China; and in the years immediately preceding and including the year 1931, countries which still possessed those rights in China including the United States were actively engaged in negotiations—far advanced—looking toward surrender of those rights. All discerning and impartial observers have realized that the United States and others of the “treaty powers” have not during recent decades clung tenaciously to their so-called “special” rights and privileges in countries of the Far East but on the contrary have steadily encouraged the development in those countries of institutions and practices in the presence of which such rights and privileges may safely and readily be given up; and all observers have seen those rights and privileges gradually being surrendered voluntarily through agreement by the Powers which have possessed them. On one point only has the Government of the United States, along with several other governments, insisted: namely, that new situations must have developed to a point warranting the removal of “special” safeguarding restrictions and that the removals be effected by orderly processes.

The Government of the United States has at all times regarded agreements as susceptible of alteration, but it has always insisted that alterations can rightfully be made only by orderly processes of negotiation and agreement among the parties thereto.



The Japanese Government has upon numerous occasions expressed itself as holding similar views.

The United States has in its international relations rights and obligations which derive from international law and rights and obligations which rest upon treaty provisions. Of those which rest on treaty provisions, its rights and obligations in and with regard to China rest in part upon provisions in treaties between the United States and China and in part on provisions in treaties between the United States and several other powers including both China and Japan. These treaties were concluded in good faith for the purpose of safeguarding and promoting the interests not of one only but of all of their signatories. The people and the Government of the United States cannot assent to the abrogation of any of this country's rights or obligations by the arbitrary action of agents or authorities of any other country.

The Government of the United States has, however, always been prepared and is now prepared to give due and ample consideration to any proposals based on justice and reason which envisage the resolving of problems in a manner duly considerate of the rights and obligations of all parties directly concerned by processes of free negotiation and new commitment by and among all of the parties so concerned. There has been and there continues to be opportunity for the Japanese Government to put forward such proposals. This Government has been and it continues to be willing to discuss such proposals, if and when put forward, with representatives of the other powers, including Japan and China, whose rights and interests are involved, at whatever time and in whatever place may be commonly agreed upon.

Meanwhile, this Government reserves all rights of the United States as they exist and does not give assent to any impairment of any of those rights.

I avail myself [etc.]

JOSEPH C. GREW

24

*Statement by Secretary Hull, March 30, 1940*<sup>29</sup>

In response to inquiries with regard to the attitude and position of the Government of the United States in the light of the setting up at Nanking of a new regime, the Secretary of State made a statement as follows:

"In the light of what has happened in various parts of China since 1931, the setting up of a new regime at Nanking has the appearance of a further step in a program of one country by armed force to impose its will upon a neighboring country and to block off a large area of the world from normal political and economic relationships with the rest of the world. The developments there appear to be following the pattern of other regimes and systems which have been set up in China under the aegis of an outside power and which in their functioning especially favor the interests of that outside power and deny to nationals of the United States and other third countries enjoyment of long-established rights of equal and fair treatment which are legally and justly theirs.

"The Government of the United States has noted statements of high officials of that outside power that their country intends to respect the political independence and the freedom of the other country and that with the development of affairs in East Asia this intention will be demonstrated. To this Government

<sup>29</sup> *Ibid.*, vol. II, p. 59.

the circumstances, both military and diplomatic, which have attended the setting up of the new regime at Nanking do not seem consistent with such an intention.

"The attitude of the United States toward use of armed force as an instrument of national policy is well known. Its attitude and position with regard to various aspects of the situation in the Far East have been made clear on numerous occasions. That attitude and position remain unchanged.

"This Government again makes full reservation of this country's rights under international law and existing treaties and agreements.

"Twelve years ago the Government of the United States recognized, as did other governments, the National Government of the Republic of China. The Government of the United States has ample reason for believing that that Government, with capital now at Chungking, has had and still has the allegiance and support of the great majority of the Chinese people. The Government of the United States of course continues to recognize that Government as the Government of China."

## 25

*Document Handed by Secretary Hull to the Japanese Ambassador  
(Nomura) on November 26, 1941*<sup>30</sup>

Strictly Confidential,  
Tentative and Without  
Commitment

WASHINGTON, November 26, 1941

OUTLINE OF PROPOSED BASIS FOR AGREEMENT BETWEEN THE UNITED STATES AND  
JAPAN

SECTION I

*Draft Mutual Declaration of Policy*

The Government of the United States and the Government of Japan both being solicitous for the peace of the Pacific affirm that their national policies are directed toward lasting and extensive peace throughout the Pacific area, that they have no territorial designs in that area, that they have no intention of threatening other countries or of using military force aggressively against any neighboring nation, and that, accordingly, in their national policies they will actively support and give practical application to the following fundamental principles upon which their relations with each other and with all other governments are based:

(1) The principle of inviolability of territorial integrity and sovereignty of each and all nations.

(2) The principle of non-interference in the internal affairs of other countries.

(3) The principle of equality, including equality of commercial opportunity and treatment.

(4) The principle of reliance upon international cooperation and conciliation for the prevention and pacific settlement of controversies and for improvement of international conditions by peaceful methods and processes.

The Government of Japan and the Government of the United States have agreed that toward eliminating chronic political instability, preventing recurrent economic collapse, and providing a basis for peace, they will actively support and practically apply the following principles in their economic relations with each other and with other nations and peoples:

<sup>30</sup> *Ibid.*, p. 768.



- (1) The principle of non-discrimination in international commercial relations.
- (2) The principle of international economic cooperation and abolition of extreme nationalism as expressed in excessive trade restrictions.
- (3) The principle of non-discriminatory access by all nations to raw material supplies.
- (4) The principle of full protection of the interests of consuming countries and populations as regards the operation of international commodity agreements.
- (5) The principle of establishment of such institutions and arrangements of international finance as may lend aid to the essential enterprises and the continuous development of all countries and may permit payments through processes of trade consonant with the welfare of all countries.

## SECTION II

### *Steps To Be Taken by the Government of the United States and by the Government of Japan*

The Government of the United States and the Government of Japan propose to take steps as follows:

1. The Government of the United States and the Government of Japan will endeavor to conclude a multilateral non-aggression pact among the British Empire, China, Japan, the Netherlands, the Soviet Union, Thailand and the United States.

2. Both Governments will endeavor to conclude among the American, British, Chinese, Japanese, the Netherland and Thai Governments an agreement whereunder each of the Governments would pledge itself to respect the territorial integrity of French Indochina and, in the event that there should develop a threat to the territorial integrity of Indochina, to enter into immediate consultation with a view of taking such measures as may be deemed necessary and advisable to meet the threat in question. Such agreement would provide also that each of the Governments party to the agreement would not seek or accept preferential treatment in its trade or economic relations with Indochina and would use its influence to obtain for each of the signatories equality of treatment in trade and commerce with French Indochina.

3. The Government of Japan will withdraw all military, naval, air and police forces from China and from Indochina.

4. The Government of the United States and the Government of Japan will not support—militarily, politically, economically—any government or regime in China other than the National Government of the Republic of China with capital temporarily at Chungking.

5. Both Governments will give up all extraterritorial rights in China, including rights and interests in and with regard to international settlements and concessions, and rights under the Boxer Protocol of 1901.

Both Governments will endeavor to obtain the agreement of the British and other governments to give up extraterritorial rights in China, including rights in international settlements and in concessions and under the Boxer Protocol of 1901.

6. The Government of the United States and the Government of Japan will enter into negotiations for the conclusion between the United States and Japan of a trade agreement, based upon reciprocal most-favored-nation treatment and reduction of trade barriers by both countries, including an undertaking by the United States to bind raw silk on the free list.

7. The Government of the United States and the Government of Japan will, respectively, remove the freezing restrictions on Japanese funds in the United States and on American funds in Japan.

8. Both Governments will agree upon a plan for the stabilization of the dollar-yen rate, with the allocation of funds adequate for this purpose, half to be supplied by Japan and half by the United States.

9. Both Governments will agree that no agreement which either has concluded with any third power or powers shall be interpreted by it in such a way as to conflict with the fundamental purpose of this agreement, the establishment and preservation of peace throughout the Pacific area.

10. Both Governments will use their influence to cause other governments to adhere to and to give practical application to the basic political and economic principles set forth in this agreement.

## 26

*Master Lend-Lease Agreement Between the United States and China,  
Signed at Washington June 2, 1942*<sup>31</sup>

Whereas the Governments of the United States of America and the Republic of China declare that they are engaged in a cooperative undertaking, together with every other nation or people of like mind, to the end of laying the bases of a just and enduring world peace securing order under law to themselves and all nations;

And whereas the Governments of the United States of America and the Republic of China, as signatories of the Declaration by United Nations of January 1, 1942, have subscribed to a common program of purposes and principles embodied in the Joint Declaration made on August 14, 1941 by the President of the United States of America and the Prime Minister of the United Kingdom of Great Britain and Northern Ireland, known as the Atlantic Charter;

And whereas the President of the United States of America has determined, pursuant to the Act of Congress of March 11, 1941, that the defense of the Republic of China against aggression is vital to the defense of the United States of America;

And whereas the United States of America has extended and is continuing to extend to the Republic of China aid in resisting aggression;

And whereas it is expedient that the final determination of the terms and conditions upon which the Government of the Republic of China receives such aid and of the benefits to be received by the United States of America in return thereof should be deferred until the extent of the defense aid is known and until the progress of events makes clearer the final terms and conditions and benefits which will be in the mutual interests of the United States of America and the Republic of China and will promote the establishment and maintenance of world peace;

And whereas the Governments of the United States of America and the Republic of China are mutually desirous of concluding now a preliminary agreement in regard to the provisions of defense aid and in regard to certain considerations which shall be taken into account in determining such terms and conditions and the making of such an agreement has been in all respects duly authorized, and all acts, conditions and formalities which it may have been necessary to perform, fulfil or execute prior to the making of such an agreement in conformity with the

<sup>31</sup> 56 Stat. 1494.



laws either of the United States of America or of the Republic of China have been performed, fulfilled or executed as required ;

The undersigned, being duly authorized by their respective Governments for that purpose, have agreed as follows :

#### ARTICLE I

The Government of the United States of America will continue to supply the Government of the Republic of China with such defense articles, defense services, and defense information as the President of the United States of America shall authorize to be transferred or provided.

#### ARTICLE II

The Government of the Republic of China will continue to contribute to the defense of the United States of America and the strengthening thereof and will provide such articles, services, facilities or information as it may be in a position to supply.

#### ARTICLE III

The Government of the Republic of China will not without the consent of the President of the United States of America transfer title to, or possession of, any defense article or defense information transferred to it under the Act of March 11, 1941 of the Congress of the United States of America or permit the use thereof by anyone not an officer, employee, or agent of the Government of the Republic of China.

#### ARTICLE IV

If, as a result of the transfer to the Government of the Republic of China of any defense article or defense information, it becomes necessary for that Government to take any action or make any payment in order fully to protect any of the rights of a citizen of the United States of America who has patent rights in and to any such defense article or information, the Government of the Republic of China will take such action or make such payment when requested to do so by the President of the United States of America.

#### ARTICLE V

The Government of the Republic of China will return to the United States of America at the end of the present emergency, as determined by the President of the United States of America, such defense articles transferred under this Agreement as shall not have been destroyed, lost or consumed and as shall be determined by the President to be useful in the defense of the United States of America or of the Western Hemisphere or to be otherwise of use to the United States of America.

#### ARTICLE VI

In the final determination of the benefits to be provided to the United States of America by the Government of the Republic of China full cognizance shall be taken of all property, services, information, facilities, or other benefits or considerations provided by the Government of the Republic of China subsequent to March 11, 1941, and accepted or acknowledged by the President on behalf of the United States of America.

## ARTICLE VII

In the final determination of the benefits to be provided to the United States of America by the Government of the Republic of China in return for aid furnished under the Act of Congress of March 11, 1941, the terms and conditions thereof shall be such as not to burden commerce between the two countries, but to promote mutually advantageous economic relations between them and the betterment of world-wide economic relations. To that end, they shall include provision for agreed action by the United States of America and the Republic of China, open to participation by all other countries of like mind, directed to the expansion, by appropriate international and domestic measures, of production, employment, and the exchange and consumption of goods, which are the material foundations of the liberty and welfare of all peoples; to the elimination of all forms of discriminatory treatment in international commerce; to the reduction of tariffs and other trade barriers; and, in general, to the attainment of economic objectives identical with those set forth in the Joint Declaration made on August 14, 1941, by the President of the United States of America and the Prime Minister of the United Kingdom.

At an early convenient date, conversations shall be begun between the two Governments with a view to determining, in the light of governing economic conditions, the best means of attaining the above-stated objectives by their own agreed action and of seeking the agreed action of other like-minded Governments.

## ARTICLE VIII

This Agreement shall take effect as from this day's date. It shall continue in force until a date to be agreed upon by the two Governments.

Signed and sealed at Washington in duplicate this second day of June, 1942.

FOR THE GOVERNMENT OF THE UNITED STATES OF AMERICA

CORDELL HULL [SEAL]  
*Secretary of State*  
*of the United States of America*

FOR THE GOVERNMENT OF THE REPUBLIC OF CHINA

TSE VUNG SOONG [SEAL]  
*Minister for Foreign Affairs*  
*of China*

27 (a)

*Secretary Stimson to the Chinese Minister for Foreign Affairs*  
*(Soong)*

WASHINGTON, January 29, 1942

MY DEAR MR. SOONG: In furtherance of the plan for sending to the Generalissimo a high ranking United States Army officer to act as his Chief of Staff and as Commanding Officer of United States Army forces in that region, it is necessary to have certain points quite clearly understood, so that essential arrangements with the British Chiefs of Staff may be completed. In accordance with our previous conversations and correspondence on this subject, it is my understanding that the functions of the United States Army Representative are to be generally as follows:



To supervise and control all United States defense-aid affairs for China.

Under the Generalissimo to command all United States forces in China and such Chinese forces as may be assigned to him.

To represent the United States Government on any International War Council in China and act as the Chief of Staff for the Generalissimo.

To improve, maintain and control the Burma Road in China.

If the above represents the understanding and agreement of the Generalissimo on the functions of the United States Army Representative, the British will agree to cooperate in Burma and India so as to promote the effectiveness of the United States Army Representative's efforts.

A particular point involving personnel on which clarification is sought is as follows:

The message from the Generalissimo dated January 21st stated that the United States representative should bring with him an Air officer of high rank. We were prepared to make such an assignment but have since learned, informally, that the Generalissimo might like to retain Colonel Chennault as the highest ranking American Air officer in China. If this should be the case, the arrangement will be quite agreeable to the War Department and Chennault's promotion to the grade of Brigadier General will be accomplished at the proper time.

I request that you give me an early reply since we are making every effort to place the general plan into prompt execution.

Sincerely yours,

HENRY L. STIMSON

27 (b)

*The Chinese Minister for Foreign Affairs (Soong) to Secretary of War Stimson*

WASHINGTON, January 30, 1942

MY DEAR MR. STIMSON: I have to acknowledge with thanks the receipt of your letter of January 29th and wish to confirm our understanding that the functions of the United States Army Representative are to be generally as follows:

To supervise and control all United States defense-aid affairs for China.

Under the Generalissimo to command all United States forces in China and such Chinese forces as may be assigned to him.

To represent the United States Government on any International War Council in China and act as the Chief of Staff for the Generalissimo.

To improve, maintain and control the Burma Road in China.

With reference to the appointment of an Air officer of high rank, the Generalissimo would indeed like if possible to retain Colonel Chennault as the highest ranking American Air officer in China, because of his signal services to both our countries, and much appreciates your kind consideration in the matter.

I am glad to learn of your intention to promote Colonel Chennault to the grade of Brigadier General in due course.

Yours sincerely,

T. V. SOONG

*Five Hundred Million Dollar Financial Aid of 1942 and Other  
Wartime Financial Relationships*

INTRODUCTION

The documents and other materials appearing in this annex provide background (a) on the negotiations and discussions leading up to the passage of the Joint Resolution of February 7, 1942, authorizing financial aid to China (Public Law 442, 77th Cong., 56 Stat. 82) and the signing of the financial aid agreement of March 21, 1942, pursuant thereto by the Governments of the United States and the Republic of China, (b) on the uses of the financial aid provided by the United States and (c) on negotiations concerning the financing of expenditures in Chinese currency by or on behalf of the United States Army in China during the war.

Transfers to Chinese accounts from the financial aid authorized in 1942 were as follows:

<i>Date of Transfer</i>	<i>Purpose</i>	<i>Amount (millions)</i>
1. April 15, 1942 . . . . .	Establishment of fund for redemption of U. S. dollar security issues.	\$200
2. February 1, 1943 . . . . .	Purchase of gold . . . . .	20
3. March 2, 1943 . . . . .	Purchase of bank notes and supplies . . . . .	20
4. October 13, 1944 . . . . .	Purchase of gold . . . . .	20
5. May 22, 1945 . . . . .	Purchase of gold . . . . .	60
6. June 12, 1945 . . . . .	Purchase of gold . . . . .	60
7. July 18, 1945 . . . . .	Purchase of textiles . . . . .	10
8. July 27, 1945 . . . . .	Purchase of gold . . . . .	60
9. August 3, 1945 . . . . .	Purchase of bank notes . . . . .	35
10. February 7, 1946 . . . . .	Purchase of textiles . . . . .	1.5
11. March 13, 1946 . . . . .	Purchase of raw cotton . . . . .	13.5
	TOTAL . . . . .	500.0

On March 24, 1941, the Chinese Government announced in Chungking its plan to issue U.S. \$100 million of 4 percent ten year National Government Allied Victory Bonds and U.S. \$100 million of one, two and three year savings certificates with interest at 3 percent, 3½ percent and 4 percent, respectively. Following the announcement the Chinese Government requested the immediate transfer of 200 million dollars for the establishment of a fund for the redemption of these issues. As noted above, the transfer was made on April 15, 1942.

These issues were denominated in United States dollars, were sold for Chinese currency and were repayable at maturity in United States dollars or in Chinese currency at the option of the holder. It is believed that the most of the savings certificates were redeemed in United States dollars. Provision for U.S. dollar redemption of the ten year Allied Victory bonds, however, was revoked in 1946. except for registered bond holders outside China. It is not known how many bonds of this issue have been redeemed in United States dollars.

Of the 220 million dollars in gold purchased by China from the 500 million dollar credit of 1942, 158.6 million dollars had been shipped to China by V-J Day. Shipments in 1943 amounted to 10.5 million dollars and in 1944 to 15.2



million dollars, and the remainder was shipped in the first eight months of 1945. From late 1943 to June 30, 1945, the Chinese Government sold gold to the public for Chinese currency in an effort to combat inflation. Approximately 100 million dollars in gold (valued at \$35 per ounce) was sold up to June 30, 1945, when gold sales were temporarily suspended. Some gold was sold on an advance basis. On June 30, 1945, the Chinese Government imposed a tax, payable in gold or Chinese currency on such sales as had not then been completed. Data are lacking as to how much gold was retained by this device.

Gold sales were resumed in September 1945 and terminated in February 1947 and were resumed intermittently in 1948 and 1949. Data are unavailable as to the amount of gold sold since September 1945.

Payments to the Chinese Government for Chinese currency supplied to or expended on behalf of the United States Army during the war were as follows:

	<i>(Millions of dollars)</i>
1. Through February 1944 at the official rate of 20 yuan equals US \$1 . . . . .	155
2. Lump sum settlement for advances in 1944 through September . . . . .	210
3. Lump sum settlement for fourth quarter, 1944 . . . . .	45

Settlement for advances of Chinese currency in 1945 and up to August 30, 1946, was provided in the Surplus Property Sales Agreement of the latter date between the United States and China.

The documents which follow are arranged substantially in chronological order.

## 28 (a)

### *The Ambassador in China (Gauss) to Secretary Hull*

CHUNGKING, December 30, 1941

Today I called on General Chiang at his request. After briefly reviewing recent measures for political and military collaboration with the United States and Great Britain, he passed on to the economic situation in substantially the following terms:

While there is no lack of confidence on the part of intelligent Chinese that the anti-Axis Powers will be victorious in the end, there is such lack of confidence among the uninformed masses, the sceptics, and the associates of the Chinese traitors. Morale has been affected by the early Japanese successes and by the way the Japanese have exploited them for purposes of propaganda. Specific mention was made of the radio appeal for Asiatic solidarity against westerners which was recently made to Chiang by the Prime Minister of Thailand. China can contribute fighting man power to the common cause but the United States and Great Britain must give China financial help in order to prevent further deterioration in economic fundamentals, loss of confidence in the Chinese currency, etc. Such help would do much toward strengthening morale and to silence the critical and doubtful elements. The credit he wants is about one billion United States dollars, of which he has through the British Ambassador asked the British Government to provide about one-half or one hundred million pounds, expecting America to provide the rest or about five hundred million dollars.

Chiang asked that in transmitting his request to my Government I should emphasize the importance such aid at this time would have to Chinese morale in overcoming Japanese propaganda and because of the needed support it would give to the economic structure of China. He pointed out that the present cur-

rency issue exceeds thirteen billion paper dollars and that the 1942 budget shows a deficit of at least nine billion Chinese dollars, and said that the proposed loan would be used partially to support a domestic bond issue intended to curb inflation.

I replied that of course I would faithfully and immediately report his request and his discussion to my Government which I was confident would be disposed to consider with sympathy any reasonable proposals to aid China in resisting Japan. However, I suggested that to assist consideration of his request and in approaching Congress for legislation necessary to authorize participation by the United States in a credit or loan to China, a carefully prepared outline of the needs of the situation on the basis of the studies and recommendations of the financial advisers and experts of the Chinese Government should be submitted together with an outline of the measures contemplated to be undertaken to meet the situation including the measures which China will take to help herself. I explained that what I was suggesting was not an outline of the terms of any proposed loan but an outline of the needs of the situation and of the definite measures which should be taken to meet these needs.

Chiang said that experts and advisers were working out plans for the use of the proposed credit or loan but that he desired me in the meanwhile to make the proposal to my Government. The proposals for application of the loan could be put forward when the loan is assured.

I learned from the British Ambassador that he was approached for a loan of one hundred million pounds from Great Britain and has referred the matter to his Government. He equally lacked any specific proposals as to how the loan, if granted, would be applied to the difficulties of the economic situation of China; Chiang had said that he considered it an urgent necessity that he should be enabled to demonstrate to the Chinese people and armies that the British Government had sufficient faith in victory to give quick and effective aid to China.

## 28 (b)

*A. Manuel Fox, U.S. Member on the Chinese Stabilization Board, to Secretary of the Treasury Morgenthau*

CHUNGKING, January 3, 1942

(A) In Yunnanfu and Chungking I find a great deal of talk of a loan to China by Great Britain and the United States. I am informed that the subject has already been raised with each of the Governments by the Generalissimo. In Chinese Government circles the talk is of a loan by Britain of one hundred million pounds and a loan of the United States amounting to five hundred million United States dollars.

(B) For some time prior to the outbreak of the war I have felt that a new loan to China was needed due to the extreme gravity of the internal economic situation here. My feeling has been reinforced since December 8 in view of (1) the effect on Chinese political opinion of the initial Japanese successes; and (2) the perceptible strengthening of defeatist elements in Chinese Government circles; and (3) the probable effect of temporary Japanese successes in southeast Asia in the near future. In this situation in order to keep China going as an Anti-Axis power a substantial loan (the bigger the better) would be invaluable. An argument in favor of making the loan as big as possible is the very fact that the larger portion of such a loan could not be used.



(C) The internal economic effects of such a loan would be beneficial, after the first psychological effects have worn off, although because of the physical difficulties in the importing of goods they might not be commensurate with its size. The fact that the political advantages would be very great is of more importance. A loan might make all the difference between a Chinese defeatist victory (lukewarm as they are) and the neutralization of the defeatists. The actual outlay would be much smaller than the nominal amount of the loan, as already indicated. It would be desirable to use the loan as an occasion for insisting on strengthening and improving the Central Bank and the Chinese banking system, but the political effects of the loan could be reinforced by not requiring any specific guarantees.

(D) The following uses could be made of the loan: (1) To retard the inflationary spiral by guaranteeing an attractive issue of Government bonds to absorb fapi and make it unnecessary for the future that the Government of China issue more currency to cover its budgetary deficit; (2) To insure the maintenance of an inflow of imports by promoting trade with India (as long as the Burma Road remains open) and with Russia. I am not in a position to evaluate from a political standpoint the aspects of financing trade with Russia but certainly there would be an accrual of economic advantages; (3) the financing of loans, if possible, for the promotion of the internal small scale production which is greatly needed and for agricultural production. Retardation of rise in prices would be aided by the effects of both (2) and (3) in increasing the supply of goods; and perhaps (4) the provision of foreign exchange backing for the note issue which would temporarily affect beneficially internal confidence in the currency. If it were possible to link the Stabilization Board in some way with the loan it might be desirable to do so because, if for no other reason, it might be easier for the Board than for the Chinese Government itself to secure confidence.

(E) The Board has received a scheme submitted by the Ministry of Finance which proposes that its remaining U.S. dollar and sterling assets be used as a guarantee fund for an issue of Chinese Government bonds on the lines of I (D). I see three objections to this: 1. The amount involved would not be sufficient to contribute substantially to the absorption of fapi; 2. taking into consideration the terms of agreements instituting the fund, there is some doubt as to the legality of the suggested procedure; 3. The Board would be deprived of its function of providing foreign exchange for imports. (This function must be performed so long as imports are possible.)

28 (c)

*The Ambassador in China (Gauss) to Secretary Hull*

CHUNGKING, January 8, 1942

I have the honor to refer to my message on the subject of finance-economic conditions in China and to my earlier messages in regard to the Chinese Government's request for an American credit of half a billion dollars and a British credit for one hundred million pounds, and to enclose for the Department's information (1) a memorandum of my conversation with General Chiang on December 30 when he asked me to place his request for a loan before the American Government,<sup>22</sup> (2) paraphrase of a telegram sent by the British Ambassador to his govern-

<sup>22</sup> See annex 28 (a).

ment on the reference subject,<sup>22</sup> (3) copy of a memorandum of Mr. Vincent's conversation with Mr. Hall-Patch, financial attache of the British Embassy,<sup>23</sup> and (4) copy of a confidential memorandum prepared by Mr. Chang Chia-ngau, Minister of Communications, for General Chiang and Dr. Kung in regard to the financial situation in China.<sup>24</sup>

I had suggested previously that the Congress might be asked to authorize a credit to China up to a specified amount for utilization under agreements or arrangements to be made by the executive branch of the Government after the presentation and consideration of definite proposals to be put forward by the Chinese Government.

I am convinced that credits of the magnitude requested by General Chiang (a total of about one billion U. S. dollars) are out of all proportion to the needs of the situation viewed from the political-psychological or the finance-economic standpoint—or both. While, in the absence of any definite proposals supported by factual data, only a rough estimate can be made, I feel that credits (American and British) of at most no more than a half billion dollars would generously satisfy all the requirements of the situation, psychological and financial, and that credits in excess of such an amount would be misleading and invite attempts at misuse. They would be misleading in that they might lead to popular expectation of practical results commensurate with the size of the credits, which would not be the case, because in present circumstances there is no practicable way in which such large credits could be effectively and legitimately utilized. They would invite attempts at misuse on the part of self-seeking banking and government elements who would find it difficult to resist the temptation to draw on such excessive credits for their own gain.

Aside from the broad idea of supporting government credit and retarding currency inflation, I am not informed with regard to any program for using the credits requested. Conversations with Dr. Fox and with Sir Otto Niemeyer lead me to believe that the Chinese Government has not formulated plans for coping with the serious internal situation and is therefore hardly in a position to indicate with any exactness the use it expects to make of desired foreign credits. Mr. Chang Chia-ngau sets forth in very general terms the need and usefulness of an internal bond issue supported by foreign credits and the Vice Ministers of Finance speak of "reconstruction" even more vaguely, and unconvincingly in so far as immediate needs are concerned. These, I fear, are examples illustrative of the government approach to the problem. The attitude and ideas of the Minister of Finance and the Minister of Economics are no more encouraging.

In the absence of technical studies on the subject, it is difficult for the Embassy to arrive at even a relatively precise idea of the reasonably constructive uses to which the credit might be put. However, it may serve some purpose to indicate in purely suggestive terms the Embassy's thoughts in the matter based on general observation.

A domestic bond issue, supported by foreign credits, would seem to be theoretically sound and advisable. No approximately definite figures as to the amount of such bonds that might be marketed are obtainable. The figure of two billion Chinese dollars is the one most often mentioned and under favorable conditions the amount might increase to four billions. Distribution primarily among the investing public would seem to be essential to accomplish the ends desired; that is, the withdrawal of currency from circulation and the release of goods now being hoarded. Obviously no public benefit would result from the

<sup>22</sup> Not printed.



government banks' exchanging currency in their vaults and newly issued currency for bonds backed by foreign currency at a fixed rate.

Encouragement of agricultural and small industrial production is wanting and badly needed. If it is feasible to do so, a portion of the credit might be used to support loans or grants to agricultural interests for the reclamation and improvement of farm land and to home and community industrial enterprises. The Chinese Government, notwithstanding the obvious advantages of such action, has been slow and reluctant to give assistance but it might be induced to do so if credits were set aside available only to support loans or grants of the kind. Only a very rough guess can be made as to the amount that might be earmarked for this purpose. Although there is slight likelihood that it would all be used, one hundred million dollars might be designated for the purpose of supporting grants or loans up to a billion Chinese dollars for small scale production and a like amount for agricultural improvement.

Dr. Fox, suggests,<sup>34</sup> *inter alia* (to the Secretary of the Treasury), use of a portion of the credit to promote imports from Russia into China. (He makes a similar suggestion with regard to imports from India). I am not in a position to evaluate the practical features of such a plan but I know that any opportunity to encourage the inflow of goods into China at this time should not be overlooked. One hundred million dollars of the credit might be set aside for this purpose in the hope that some portion could be used to accomplish the desired results.

The Central Executive Committee of the Kuomintang, at its meeting in December last, passed a resolution calling for "The execution of a land policy and the institution of government machinery to deal exclusively with land registration and the equalization of land ownership. . .". Various Kuomintang organs and committees have in the past passed similar resolutions, the effect of which has been inconsequential. To encourage implementation of the resolution quoted above, a practical step would seem to be the earmarking of a portion of the credit (one hundred million dollars is suggested as a generous estimate) for the support of the necessary financing of the agrarian reform contemplated.

The Generalissimo stresses the psychologically beneficial effect of a large political loan or credit at this time but he offers no program for its use, stating that a program will be forthcoming after the credit is given. I concur in his statement as to the need and the effect of a credit (while differing with regard to the amount) but I am convinced of the advisability, from the Chinese point of view as well as our own, of earmarking portions of the credit for certain purposes. Designation of portions of the credit for support of measures suggested above may be ill-received in banking and some governmental quarters but I believe that, viewing the situation as a whole from the standpoint of general public welfare and from the standpoint of strengthening the country's economic structure for continued resistance to Japan, it will produce more constructive results than the granting of a large lump credit or loan without designation as to use. It is well not to overlook the beneficial psychological effect upon the Chinese people of support for measures mentioned above (in particular measures for increased production and agrarian reform); and the practical effects of even partial application and implementation of such measures would fully justify our support. Probably no more than half the amounts suggested would be effectively used for the purposes mentioned and no doubt there would be administrative difficulties and inefficiencies, but even so, urgent requirements would at least be partially met—production of commodities would be increased (thereby remov-

<sup>34</sup> See annex 28 (b).

ing some of the curse from currency inflation) and a start towards long overdue agrarian reform would be made. And those elements in China which have been urging such measures and the infinitely greater number that would benefit therefrom would be encouraged and strengthened in their resolve to support active prosecution of the war against Japan, having received a practical demonstration that they are fighting for something. The alternative is purchase of the support of the retrogressive, self-seeking, and, I fear, fickle elements in and intimately associated with the government through the granting of a "free" credit, for I am convinced that a substantial credit should be granted.

I cannot too strongly emphasize my feeling that we should clearly and forcefully make known to the Chinese Government, in connection with financial aid that we may extend to China, our opposition to the use of any portion of such aid, directly or indirectly for the financing of expensive and harmful monopolies. This is a matter which calls for no clarification on my part in as much as I am sure that the Department is fully aware of the dangers of the situation.

28 (d)

*The Chinese Minister of Finance (Kung) to Secretary of the Treasury  
Morgenthau*

CHUNGKING, January 9, 1942

China has been fighting a war of resistance with heavy strain on her resources and with untold sacrifices for four and one-half years. At the present time, China's economic and financial situation is in a precarious condition. The livelihood of the people is difficult, because of increasing prices; and the brave soldiers at the front are ill-clothed and ill-fed. It is necessary to retain control of currency and prices without production being curtailed. It would be impossible to carry on the war if the already very critical economic and financial front should collapse.

Since the survival and existence of democratic countries are interdependent, present world war developments render it imperative for these countries to pool their economic and military resources. Consequently, I appeal to you for a political war loan of five hundred million dollars. Great Britain has also been approached by us for a loan of one hundred million pounds for the purpose of covering the total sum required. We are awaiting a reply from Great Britain. If you will lead, I am confident they will follow your example. This loan is requested for the purpose of replenishing reserve so as to restore confidence in currency, to offset diminished imports by increased production, to restrain prices, and to meet additional urgent war requirements. There are sound justifications for the loan on economic grounds, and also from the standpoint of joint military front. Frankly, however, my reason for approaching you is political above all; and the import of a loan of this nature is even more important than the Lend-Lease Bill's import. The essence of such a move is timeliness, so as to demonstrate that China's confidence in the allied powers is matched by equal confidence in China of the allied powers, in the most crucial months of emergency immediately before us. In addition to electrifying public opinion, early announcement of the loan would have an immediate effect throughout Asia, including our common enemy, Japan. My appreciation of your continuing keen interest in China provides me with confidence in sending you this message.



28 (e)

*Secretary Hull to Secretary of the Treasury Morgenthau*

WASHINGTON, January 10, 1942

MY DEAR MR. SECRETARY: Reference is made to Generalissimo Chiang Kai-shek's request of December 30, 1941 that the United States Government provide China with \$500,000,000 of financial help in order to support Chinese morale and prevent the effects of further depreciation of the Chinese currency and deterioration of the fundamental economic situation in China.

The Generalissimo's proposal has been given very careful consideration. I feel that, as an act of wartime policy and to prevent the impairment of China's military effort which would result from loss of confidence in Chinese currency and depreciation of its purchasing power, it is highly advisable that the United States extend financial assistance to the Government of China in amounts up to \$300,000,000 at the present time. I believe that a determination of this Government's policy to this effect need not await ascertainment of the attitude to be taken by Great Britain on the similar Chinese proposal with reference to sterling credits.

I feel that the greatest possible expedition in reaching a position where an announcement can be made is highly important. I feel also that it would seem to be highly desirable that the British Government be kept currently informed of our views and decisions in regard to this matter in order that the British Government may be afforded opportunity, should it so desire, to take simultaneous and comparable action.

Sincerely yours,

CORDELL HULL

28 (f)

*Generalissimo Chiang Kai-shek to Secretary of the Treasury Morgenthau*

CHUNGKING, 14th January, 1942

DEAR MR. SECRETARY: I have requested Mr. Fox to inform you in person of China's present financial and economic realities and needs. Throughout these critical years your support of China's cause has been most enthusiastic and sympathetic. You are now naturally more than ever concerned with our problems and difficulties, especially at the moment when our interests and destiny are absolutely identical.

If China's finance and economics fail to be improved and strengthened, our power of resistance against Japanese aggression will be so adversely affected that the entire war front of the allied Powers will inevitably suffer. My Government and people earnestly hope that your Government will give us the speediest and most effective assistance, and that, in compliance with my request and in accordance with the plan prepared by our Minister of Finance, you will exert your utmost to procure the desired loan for China. In view of actual war-time requirements this loan is not large.

I feel certain that in his verbal report Mr. Fox will enter fully into the military, financial and economic situations in China, and will explain in detail what bearing they have in the attainment of our common victory.

With best wishes,

Yours sincerely,

CHIANG KAI-SHEK

28 (g)

*The Chinese Minister for Foreign Affairs (Soong) to Secretary of  
the Treasury Morgenthau*

[WASHINGTON,] January 21, 1942

MY DEAR MR. SECRETARY: During your absence from Washington I received the enclosed message for you from the Generalissimo.

Since Mr. Fox is due to arrive in Washington shortly, it occurs to me that you may like to have an opportunity of seeing him and hearing from him of the situation in China before you renew discussions with me. However I am at your disposal at any time, should you wish to see me earlier.

Sincerely yours,

T. V. SOONG

[Enclosure]

The Generalissimo deeply appreciates Secretary Morgenthau's efforts which have materialized in a proposal that the U. S. Government would undertake to pay for the maintenance of part of the Chinese army in U. S. Dollar notes. After careful consideration, however, he doubts whether this scheme is practicable. Payment of Chinese soldiers in U. S. currency would tend to create a cleavage between the army and the general economic structure in China which may actually hasten the collapse of the Chinese currency. Before Mr. Fox left Chungking the Generalissimo had a long discussion with him in which he pointed out a number of reasons why he considered the scheme difficult of application and which he asked Mr. Fox to convey to Secretary Morgenthau.

The Generalissimo urgently requests that careful consideration be given to his original proposal that the United States grant to China a political loan of 500 million U. S. dollars, which would be the only means to prevent an impending economic collapse. This loan should be regarded in the light of an advance to an ally fighting against a common enemy, thus requiring no security or other pre-arranged terms as to its use and as regards means of repayment.

28 (h)

*Minutes <sup>35</sup> of a Meeting in the Office of the Secretary of State,  
January 30, 1942*

[Extract]

Present : Secretary Hull  
Secretary Morgenthau  
Dr. Viner  
Mr. White

Later Joined By: Mr. Berle  
Mr. Hornbeck  
Mr. Hamilton  
Mr. Feis

Secretary Hull asked for opinions as to which of the several methods suggested by the Treasury would be the best medium for giving help. He said he himself was not interested in the method. He said that should be the Treasury's business.

<sup>35</sup> Prepared at the Treasury Department.



He was solely interested in seeing that China did get aid in the present critical situation.

Mr. Hornbeck stated that he thought the ideal method of helping would be a Congressional statute providing for an extension of financial aid to China. He said that might, however, cause undue delay. He was not certain that legislation was the most practical method of approaching the problem. He stated that he did not think the matter was so urgent or acute that a matter of days were critical, but that if it were to take several weeks for Congress to pass such legislation, it would be too late. If legislation could be passed in a few days he favored legislation.

Mr. Hornbeck went on to say that he thought that the sum should be \$500 million instead of the \$300 million which Secretary Hull had indicated in his letter to Secretary Morgenthau. Mr. Hornbeck thought that a reduction in the portion which the United States was prepared to give to \$300 million would be too great a reduction from the sum which Chiang-Kai-Shek was asking. He felt Chiang-Kai-Shek should be given what he asked for, namely \$500 million from the United States. Secretary Morgenthau agreed with Hornbeck, as did the others, and it was therefore decided that the sum which they would recommend would be \$500 million.

28 (i)

*Secretary of the Treasury Morgenthau to Generalissimo Chiang Kai-shek*

WASHINGTON, February 16, 1942.

DEAR GENERALISSIMO CHIANG: I read with great interest your letter of January 14, 1942, transmitted to me in person by Mr. Fox. The unanimity and promptness with which my Government responded to the appeal for financial assistance is evidence that your confidence in the support of the United States is well founded. It also demonstrated that the American people have faith in the Chinese people and know that you and your Government will continue to play a vital part in the common effort against our foes.

I wish you to know that here in the United States Generalissimo Chiang Kai-shek is looked upon as the personification of the heroism and courage of the Chinese people who, under the most difficult circumstances and at tremendous odds, have successfully defended their country against invasion. No one doubts in the United States that your leadership has secured for China the unity of purpose and will, without which China would have fallen victim to the Japanese aggressor. Moreover, the people of the United States clearly understand that China's unceasing resistance will not only bring freedom and independence to itself, but will play a major part in achieving victory and peace for free men everywhere.

Sincerely yours,

H. MORGENTHAU, Jr.

28 (j)

*Initial Draft of United States-China Financial Aid Agreement*<sup>36</sup>

WHEREAS, the Governments of the United States of America and of the Republic of China are engaged, together with other nations and peoples of like mind, in a

<sup>36</sup> Handed to the Chinese Minister for Foreign Affairs, T. V. Soong, by the Treasury Department, Feb. 21, 1942.

cooperative undertaking against common enemies, to the end of laying the bases of a just and enduring world peace securing order under law to themselves and all nations, and

WHEREAS, the United States and China are signatories to the Declaration of United Nations of January 1, 1942, which declares that "each government pledges itself to employ its full resources, military or economic, against those members of the Tripartite Pact and its adherents with which such government is at war"; and

WHEREAS, the Congress of the United States, in unanimously passing Public Law No. 442, approved February 7, 1942, has declared that financial and economic aid to China will increase China's ability to oppose the forces of aggression and that the defense of China is of the greatest possible importance, and has authorized the Secretary of the Treasury of the United States, with the approval of the President, to give financial aid to China, and

WHEREAS, such financial aid will enable China to strengthen greatly its war efforts against the common enemies by helping China to

- (1) strengthen its currency, monetary, banking and economic system;
- (2) finance and promote increased production, acquisition and distribution of necessary goods;
- (3) retard the rise of prices, promote stability of economic relationships, and otherwise check inflation;
- (4) prevent hoarding of foods and other materials;
- (5) improve means of transportation and communication;
- (6) effect further social and economic measures which will safeguard the unity of the Chinese people; and
- (7) meet military needs and take other appropriate measures in its war effort.

In order to achieve these purposes, the undersigned, being duly authorized by their respective Governments for that purpose, have agreed as follows:

#### ARTICLE I.

The Secretary of the Treasury of the United States agrees to establish forthwith on the books of the United States Treasury a credit in the name of the Government of the Republic of China in the amount of 500,000,000 U.S. dollars. The Secretary of the Treasury shall make transfers from his credit, in such amounts and at such times as the Government of the Republic of China shall request, to an account or accounts in the Federal Reserve Bank of New York in the name of the Government of the Republic of China or any agencies designated by it. Such transfers may be requested by and such accounts at the Federal Reserve Bank of New York may be drawn upon by the Government of the Republic of China either directly or through such persons or agencies as it shall authorize.

#### ARTICLE II.

China desires to keep the Secretary of the Treasury of the United States informed as to the use of the funds herein provided and to consult with him from time to time as to such uses. The Secretary of the Treasury of the United States desires to make available to the Government of the Republic of China technical and other appropriate advice as to ways and means of effectively employing these funds to achieve the purposes herein described. Technical problems that may from time to time arise in effectuating the financial aid herein provided will be subjects of discussion between the Secretary of the Treasury of the United States and the Government of the Republic of China.



## ARTICLE III.

The final determination of the terms upon which this financial aid is given, including the benefits to be rendered the United States in return, is deferred until the progress of events makes clearer the final terms and benefits which will be in the mutual interest of the United States and China and will promote the establishment of lasting world peace and security. In determining the final terms and benefits no interest charges shall be made for the financial aid herein provided and full cognizance shall be given to the desirability of maintaining a healthy and stable economic and financial situation in China in the post-war period as well as during the war and to the desirability of promoting mutually advantageous economic and financial relations between the United States and China and the betterment of world-wide economic and financial relations.

## ARTICLE IV.

This Agreement shall take effect as from this day's date.

Signed and sealed at Washington, District of Columbia, in duplicate this \_\_\_\_\_ day of \_\_\_\_\_, 1942.

On behalf of the United States of America

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*Secretary of the Treasury*

On behalf of the Republic of China

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28 (k)

*The Ambassador in China (Gauss) to Secretary Hull*

CHUNGKING, March 1, 1942.

Strictly confidential information has reached the Embassy that a draft Sino-American loan agreement has been received from Washington by the Ministry of Finance and has been discussed. It is said that the Ministry resents on the ground that a measure of control is contemplated the provision for consultation by the Government of China with the Treasury Department concerning expenditures under the loan. The Ministry has been disappointed to find that the loan is not granted, as the Press has stated, as an absolute gift in recognition of China's contribution to the War effort in general.

I am not prepared to express an opinion on the question of policy whether or not we should provide for some means of repayment. I have been privately told by a prominent and intelligent Chinese banker that the obtainment of the loan was too easy for the loan to be appreciated or for provision for its effective use to be insured. There is a perceptible assumption on the part of Chungking officials and bankers that it is a compensation which was due to China for its past and present resistance to Japan and for what the Chinese regard as our past and present shortcomings.

It is my conviction that for the purpose of having some measure of control over the matter in which so large a loan is expended we should firmly insist on retaining the provision for consultation. It is my opinion as I have indicated

in previous telegrams that the best interests of China and our own best interests as well would be served by controls and allocation of parts of the loan for specific purposes.

28 (1)

*The Chinese Minister for Foreign Affairs (Soong) to Under Secretary of the Treasury Bell*

[WASHINGTON,] March 3, 1942

DEAR MR. BELL: I am in receipt of a reply on the draft of the Loan Agreement from the Generalissimo dated February 25th, which I delayed presenting to you owing to a visit to Canada.

The Generalissimo is very appreciative of the generous spirit that characterized the draft Agreement and desires me to convey his grateful appreciation to the Secretary.

As to details he suggested the following points:

1. Reactions in Chungking as to Article II appear to be that the U. S. Government will in some way pass judgment on the uses to which the Loan may be put, and thereby limits in some degree the freedom of making disbursement.

As China in any case would like to keep the Secretary informed, and as the Secretary has in the past without any agreement always exerted himself on every occasion to help China, he suggests that Article II is unnecessary, since it makes of such voluntary acts mandatory. He therefore hopes that Article II may be dropped.

2 (a) As the whole energy of the people is concentrated on winning the war, he hopes that the final determination of the terms upon which the financial aid is given should be left until after the war. He suggests that the phrase "after the war" should appear in Article III, coming after the phrase "deferred until the progress of events" in the opening sentence.

2 (b) Although greatly appreciative of the United States waiving interest, he believes that the lofty plane of cooperation between the United States and China would be aided by dropping all reference to interest through deleting the clause "no interest charges shall be made for the financial aid herein provided".

2 (c) For the purpose of clarification that the final determination of the terms upon which the financial aid is given should be a bilateral and not a unilateral measure, he would suggest that in the final sentence of Article III the words the "United States and China shall take full cognizance of" should come after the words "In determining the final terms and benefits".

In order to make the suggestions clearer I am enclosing the draft Agreement with such alterations as are suggested in the telegram.

The Generalissimo again bids me to say that such textual changes as he suggested are only to heighten the impression of the Chinese people at this unprecedentedly generous act of the American Government and people.

Would you be good enough to pass on the suggestions to your colleagues for their kind consideration.

Yours sincerely,

T. V. SOONG



28 (m)

*Acting Secretary Welles to Secretary of the Treasury Morgenthau*

WASHINGTON, March 11, 1942.

MY DEAR MR. SECRETARY: I refer to your letter of March 10 on the subject of the draft of the proposed agreement regarding the extension of financial aid to China.

All parties concerned are in agreement that the purposes of the extension of this financial aid are predominantly political, diplomatic, and military.

The draft which you submitted to Dr. T. V. Soong for consideration contains in its four articles provisions which make readily available to the Chinese Government without restrictive commitments the \$500,000,000 which the Congress appropriated for the making of a loan, the extending of a credit or the giving of other financial aid to China. It does not in fact impair or restrict the Chinese Government's freedom of action in the making of disbursements.

In his letter to Mr. Bell of March 3 Dr. Soong suggests, on behalf of Generalissimo Chiang Kai-shek, the making of a number of changes. In my opinion, we can readily accept most of these suggestions and proceed accordingly. With regard, however, to the suggestion that Article II be omitted in its entirety, it seems to me that there is ample warrant for a discussion of the matter and that we should endeavor to cause Dr. Soong and the Generalissimo to realize that provisions such as appear in the draft of that article are desirable from point of view not only of this Government but of the Chinese Government.

With regard to procedure, I would suggest that there first be made a redraft of the proposed Article II and that there then be communicated to Dr. Soong a statement by you that we are in complete concurrence with his comments and the changes which he has suggested except as regards that article, and that, in the light of his comments on that article, there is submitted to him for his consideration a possible alternative form.

Toward facilitating procedure along that line, I submit here attached for your consideration a draft of a possible substitute for Article II.

Another possible line of procedure which might be considered would be that of putting the substance of this suggested alternative draft of Article II into letters which might be exchanged between you and Dr. Soong.

In as much as the only delay which has occurred in connection with the attention which has been given this matter has been delay on the part of the Chinese, I would further suggest that, in whatever communication you make to Dr. Soong, you indicate to him that all officers of this Government who are concerned with the negotiating of this agreement are eager to bring the matter to a mutually satisfactory conclusion with the utmost possible expedition.

Sincerely yours,

SUMNER WELLES

[Enclosure—Draft]

## ARTICLE II

As a manifestation of the cooperative spirit which underlies the common war effort of China and the United States, appropriate officials of the two Governments will confer from time to time regarding technical problems which may arise in connection with the financial aid herein provided and will exchange information and suggestions regarding ways and means of most effectively applying these funds toward achieving the purposes which are envisaged by the two nations.

28 (n)

*The Chinese Minister for Foreign Affairs (Soong) to Under Secretary of the Treasury Bell*

[WASHINGTON,] March 19, 1942

DEAR MR. BELL: Confirming our conversation, I have to inform you that I have received a reply from the Generalissimo with reference to your proposal to reinsert Article II of the proposed loan agreement in a modified form.

The Generalissimo states that after carefully consulting his colleagues he feels that even in the modified form Article II is generally construed as limiting the freedom of action in the use of the proceeds, and would therefore adversely affect the public response to bonds, savings deposits and other measures that are to be based on the loan.

In addition, among his soldiers, who have been tremendously heartened by the generous and unconditional assistance as revealed in the exchange of messages between the President and himself, the inclusion of Article II would create the impression that the terms are not as clear-cut as they envisaged.

The Generalissimo therefore feels that the civilian and military reactions are such as to justify his request that Article II be dropped completely, and I shall be grateful if you will transmit his message to your colleagues for their consideration.

With kind regards,  
Yours sincerely,

T. V. SOONG

28 (o)

*The Chinese Minister for Foreign Affairs (Soong) to Secretary of the Treasury Morgenthau*

[WASHINGTON,] March 21, 1942

MY DEAR MR. SECRETARY: In connection with the Agreement concluded today between the Governments of the United States of America and the Republic of China regarding financial aid to China, as a manifestation of the cooperative spirit which underlies the common war effort of our two countries, I wish to inform you that it is the intention of my Government, through the Minister of Finance, to keep you fully informed from time to time as to the use of the funds provided in the said Agreement.

Sincerely yours,

T. V. SOONG

28 (p)

[For the Joint Statement by Secretary of the Treasury Morgenthau and the Chinese Minister for Foreign Affairs (Soong), March 21, 1942, see post, annex 29 (b).]



## 28 (q)

*The Chinese Minister of Finance (Kung) to Secretary of the Treasury  
Morgenthau*

[CHUNGKING,] April 20, 1942

With reference to keeping the Treasury informed on all developments relating to the loan I have done so and intend to do so in the future. For example, I told Adler on the 18th of March about the plan to put out savings certificates and bonds and he must have cabled this to the Treasury. I welcome any counsel the Treasury is willing to offer and if the Secretary cares to make any suggestions every consideration will be given to them. It was essential to request the shift of funds to the Central Bank in order to convince the people that use was being made of the loan without delay to prevent inflation.

## 28 (r)

*Secretary of the Treasury Morgenthau to the United States Treasury  
Representative, American Embassy at Chungking*

WASHINGTON, December 29, 1942

One. With reference to your cable in which you report that Dr. Kung is willing to accept any decision the Treasury may desire to make in connection with the amount of gold which should be purchased from the Treasury by China, whether it be twenty, thirty, forty, or fifty million dollars, due to the considerations set forth in the following, the Treasury believes that the more appropriate sum would be the amount already agreed upon, U.S. twenty million dollars.

A. Treasury does not perceive in what manner the Chinese government would benefit by purchasing additional gold on which the required charges would have to be paid by the government of China.

B. It would seem to be indicated by the information received from Mr. Hsi and from you with respect to the attitude of Dr. Kung on purchasing additional gold that Dr. Kung does not feel any urgent requirement for additional gold exists.

C. Additional gold purchase by the government of China would entail raising funds to purchase the additional gold by the United States Treasury. It would be necessary for the Government of the United States to pay interest on the funds raised at a time when the Government is already engaged in the task of borrowing tremendous amounts in order to meet its current fiscal requirements.

D. The Treasury would have difficulty in justifying to the public an increase in the indebtedness of the United States Government so as to render it possible for the Chinese government to buy gold for earmarking here, unless China would benefit in some way by the purchase of additional gold.

Two. Kindly advise Dr. Kung of the foregoing.

## 28 (s)

*Message Received from the Chinese Minister of Finance (Kung),  
July 8, 1943*

During the six years of our war of resistance China's military expenditure has been increasing continuously. According to the national budget of the current

year, the estimated expenditure was originally placed at 36,200,000,000 yuan, while the estimated income was given as 23,200,000,000 yuan, representing about 65% of the total expenditure. The remaining 35% is entirely met by increased note issue.

Owing to military requirements and the requests made by the American Military Mission, the Chinese Government has undertaken to build, or improve, the airfields in various parts of the country and to increase their equipment, as well as to improve the Yunnan-Burma highway and other necessary highways and railways. Each enterprise often necessitated the expenditure of 4,000,000,000 to 5,000,000,000 yuan, making a total of additional requirements amounting to over 30,000,000 yuan.

Furthermore, owing to the difficulties of transportation and the small volume of supplies received under the American Lend-Lease Act, the Chinese Government has been obliged to provide ways and means of increasing the production of military supplies in order to meet the demands of the war. All such expenses are beyond what is provided by the budget, and the Chinese Government is compelled to further increase its note issue in order to meet the situation. For these reasons there has been constant tendency toward inflation. In order to remedy the situation and to stabilize the price of commodities, it is necessary to adopt measures having the effect of checking inflation. Through increased taxation and other means, the Government has withdrawn a certain portion of the notes in circulation, but there is still by far the larger portion in the hands of the people which is being used toward the purchase and accumulation of commodities, resulting in the further rising of prices and in making livelihood increasingly difficult.

The chief purpose for the proposed purchase and sale of gold is to withdraw large quantities of notes now in circulation. The fact that each ounce of gold is worth now about 8,000 yuan shows the psychology of Chinese people toward gold. To obtain the desired result, it is only necessary for the time being to have bullion which can be handled easily. However, the question of coinage is being given careful study and can be best taken up at the time of reorganization of Chinese currency.

According to Madam Chiang, the proposal which we are making—that is, the purchase of 200,000,000 dollars' worth of gold with the United States loan—has received the approval of President Roosevelt and Secretary Morgenthau in principle. It is earnestly hoped that it can be realized at an early date. We always appreciate and welcome suggestions and advices from Secretary Morgenthau and Dr. White, but in this particular case we are influenced by actual conditions in China, and we feel that it has to be done in the way we suggested in order to reap the desired benefits. It is earnestly hoped that we shall not lose this good opportunity of checking inflation.

28 (t)

*Memorandum to President Roosevelt from Secretary of the Treasury  
Morgenthau*

[WASHINGTON,] July 15, 1943

On July 14, 1943, we sent a message to Dr. H. H. Kung, the Chinese Minister of Finance, informing him that the Treasury is prepared in principle to agree to the Chinese request to purchase \$200 million of gold out of the \$500 million



financial aid as a means of helping to check inflation in China. Dr. Kung was also informed that a formal request was, of course, necessary before any definitive decision and action could be taken.

The Chinese Government has already drawn on the Treasury to the extent of \$240 million out of the \$500 million financial aid:—\$200 million has been set aside as backing for Chinese Government savings certificates and bond issues; \$20 million was used to purchase gold, and \$20 million is being used for the printing of banknotes and the purchase of relative materials. The purchase of gold with an additional \$200 million will mean that in total the Chinese will have used \$440 million out of the \$500 million financial aid.

In the message to Dr. Kung, as well as in discussions with the representatives of the Chinese Government in Washington, it has been made clear that the Treasury is acquiescing to the Chinese proposal because the Government of China deems that the sale of gold to the public will aid its war effort by helping to fight inflation and hoarding and that, therefore, the decision to purchase the gold is primarily the responsibility of the Chinese Government. Furthermore, the Chinese have been urged to give careful consideration to the best ways of using the gold, particularly because of the great costs, difficulties and dangers inherent in the use of gold as a means of checking inflation under conditions existing in China at present. We especially stressed the fact that the Chinese Government will by this step be sacrificing large amounts of foreign exchange, which could be used in the post-war period to pay for imports needed for reconstruction and rehabilitation.

The use of gold coins as against bullion for the purpose was carefully considered. It was felt both by us and by the Chinese Government that this technique for selling the gold to the public would not be feasible in the present instance, primarily because it would be necessary to give the gold coins a fixed monetary value, while it is contemplated that the price of gold in terms of yuan will change frequently and substantially as time goes on.

The suggestion was therefore made to the Chinese representatives in Washington that the gold might be sold to the public in China in small bars of one or two ounces in order to reach the widest possible section of the Chinese public and such bars might have some engraving which might suggest the United States origin of the financial aid, if the Government of China so wished.

## 28 (u)

### *Secretary of the Treasury Morgenthau to the Chinese Minister of Finance (Kung)*

WASHINGTON, July 27, 1943

The Treasury agrees to the request of the Government of China transmitted to me by Ambassador Wei Tao-ming that \$200 million be made available from the credit on the books of the Treasury in the name of the Government of the Republic of China for the purchase of gold.

In order to avoid unnecessary raising of funds by the United States Treasury, it is suggested that transfers from the credit of the Chinese Government for the purchase of gold be made at such time and in such amounts as are allowed by existing facilities for the transportation to China of the equivalent amount of gold. Since it is intended that this gold will be sent to China for sale to the

public, this procedure should not interfere with the program outlined in your message of July 23, 1943.

On receipt of requests from the Government of China that a specific amount should be transferred from the credit of the Government of China on the books of the Treasury and be used for the purchase of gold, the necessary action will be taken to consummate these requests. The details of the arrangements will be discussed with Dr. P. W. Kuo and Mr. Hsi Te-mou.

Sincerely yours,

H. MORGENTHAU, Jr.

28 (v)

*Memorandum to President Roosevelt from Secretary of the Treasury  
Morgenthau*

[WASHINGTON,] December 18, 1943

You have spoken of the request of Generalissimo Chiang-Kai-Shek for an additional \$1 billion of financial aid to China to be used to help control inflation and for postwar reconstruction.

I

The facts regarding inflation in China and the possibility of its control through the use of dollar resources are as follows:

Inflation in China, as you well know, arises from the grave inadequacy of production for war needs and essential civilian consumption. Supplies have been drastically reduced by enemy occupation and the cutting off of imports except the small amounts that come by air or are smuggled from occupied territory.

The Chinese Government cannot collect sufficient taxes or borrow from the people in adequate amounts. As a consequence, the Government has been issuing 3.5 billion yuan a month, twice the rate of a year ago.

The official exchange rate for yuan is now 5 cents; before China entered the war it was 30 cents. The open market rate for yuan in U. S. paper currency is one cent and in terms of gold one-third of a cent.

You have suggested the possibility of our selling dollar currency for yuan to be resold to China after the war at no profit to us. No doubt something could be done to alleviate inflation through the sale of gold or dollar currency in China. I have received the following message from Dr. Kung dated December 14:

"You will be pleased to hear that the recent gold shipment is one of the outstanding factors contributing to the strengthening of fapi, because people believe that the arrival of gold has increased the much needed reserve of our currency, thereby influencing the stability of prices. The action of the United States Government re-affirms to the Chinese people that, despite difficulties arising from the blockade and the cumulative effects of over six years of war against the invasion, China has a powerful friend desirous of strengthening China's economy as conditions permit."

However, while something could be done to retard the rise in prices, the only real hope of controlling inflation is by getting more goods into China. This, you know better than I, depends on future military operations.



## II

China has tried two similar monetary remedies for alleviating inflation without marked success.

1. The Chinese Government issued and sold dollar securities for yuan, setting aside \$200 million of the aid granted by this country for the redemption of the securities. (These securities were sold at exorbitant profit to the buyers. For instance, a person holding \$100 in United States currency could have quadrupled his money in less than two years by selling the currency for yuan on the open market and buying the dollar securities issued by the Chinese Government.) I believe that the program made no significant contribution to the control of inflation.

2. The Chinese Government has recently been selling gold at a price in yuan equivalent to \$550 an ounce, about fifteen times the official rate. We have shipped to China more than \$10 million of gold and they have sold about \$2 million of gold for yuan. This program has not been tried sufficiently to warrant any definite conclusion as to its possible effect.

China now has \$460 million of unpledged funds in the United States and is getting about \$20 million a month as a result of our expenditures. China could use these funds in selling gold or dollar assets for yuan, although in my opinion such schemes in the past have had little effect except to give additional profits to insiders, speculators and hoarders and dissipate foreign exchange resources that could be better used by China for reconstruction.

Under the circumstances, a loan to China for these purposes could not be justified by the results that have been obtained. It is my opinion that a loan is unnecessary at this time and would be undesirable from the point of view of China and the United States. Large expenditures on ineffective measures for controlling inflation in China would be an unwise use of her borrowing capacity which should be reserved for productive uses in other ways. On reconstruction, it is too soon for us to know the best use or the best form of the aid we might give to China.

## RECOMMENDATIONS

For the past five years I have had a deep admiration for the valiant fight that the Chinese people, under the leadership of Chiang-Kai-Shek, have waged against Japanese aggression. Therefore, I am in complete sympathy with your position that no stone be left unturned to retard the rise in prices. Using the tools we have at hand, I recommend the following:

1. All United States expenditures in China, currently \$400 million yuan a month and rising rapidly, be met through the purchase of yuan with gold or dollar currency at whatever price we can get them for in the open market. This is equal to more than 10 percent of the present rate of issue.

2. Accelerate the shipment of gold purchased by China to twice the amount we have previously planned to send. It should be possible to raise gold shipments from \$6 million a month to about \$12 million. At the present price for gold in the open market this would be equal to the present 3.5 billion of yuan currency that is being issued.

The impact of this two-fold program should contribute to retarding inflation, always bearing in mind that the basic reason for inflation in China is the shortage of goods.

28 (w)

*The Ambassador in China (Gauss) to Secretary Hull*

CHUNGKING, December 23, 1943

I called last evening in company with Atcheson upon President and Madame Chiang at their request. The only other person present was Wang Chung Hui who had been with them at Cairo. In reply to Chiang's question, which he asked significantly, whether I had received any telegrams recently I said none of importance. The Generalissimo then asked my opinion of the situation in China, especially economic developments, and he observed that he would welcome any advice that I might offer and hear any plan I might suggest.

In referring to the seriousness of economic conditions, he reiterated his suggestion that I put forward any plan for amelioration. He then went on to say that in his country the coming year would be most crucial and that the faith of the Chinese people in China's national currency had so far prevented an economic collapse. Chiang said that it was essential that there be an early re-opening of the Burma Road for so long as this road remains unopened the desperate economic situation of China renders it essential to support the value of the currency of China and maintain the rate of exchange.

In reply to Chiang's question as to whether I have studied the problem of the financial difficulties of China, I said that we try to keep up with the financial situation in the light of whatever information is available and that from the American point of view one aspect which has lately been causing me much concern is the effect which the rate of exchange is having on the expenditures by the American Government for the American military forces with which China is being assisted; those expenditures are now attaining high figures and when converted at the artificial rate of exchange are costing the American Government twenty million dollars and over a month in American currency, which, while benefitting China by accumulating a currency reserve in the United States, make for expenditures by the United States eight to ten times as great as we would have to spend in the United States or elsewhere for services and facilities of a comparable character such as advance airbase facilities which our forces urgently require. I expressed my concern that as this became known in our country it might cause serious criticism that the American Government and Army are being exploited and that such criticism would operate to the injury of China as well as of our war effort in China.

The Generalissimo firmly affirmed that the exchange rate for Chinese currency cannot be altered. I replied that I entirely understood his position on that point. I suggested however that there might be adopted without involving a change in the exchange rate other proposals toward a solution of the problem, such as reverse Lend-Lease, or the proposal that the Secretary of the Treasury had made to Dr. Kung regarding the sale of gold. Madame Chiang observed that as there was no market for gold, the efforts of the Chinese Government to sell gold had proved a failure. The Generalissimo affirmed that he had given study to the question of reverse Lend-Lease, that the whole financial situation had been causing Kung and himself much anxiety, that it is not possible to change the exchange rate and that support must be given to the value of Chinese currency. He asked that I see Dr. Kung again and just before leaving the room in the way that is his custom requested with a manifestation of some exasperation and emphasis that I make it known to our Treasury and military authorities that



both the economic and military collapse of China would result from a failure to support the currency of China.

Madame Chiang indicated during the course of the conversation that the President had been made acquainted at Cairo with the Generalissimo's views on the seriousness of the situation. After Chiang had left she expressed herself emphatically in regard to China's economic difficulties and remarked with some bitterness that about 200 Chinese dollars were being paid by China for the maintenance of every American soldier in China. She indicated that as our forces are augmented the cost would become intolerable and added that it is becoming more and more impossible to find sufficient pigs, chickens, and cattle to feed the American troops (needed to supplement the amounts of supplies which we ourselves bring in). She said that it was imperative that sufficient backing be accorded Chinese currency.

Two. It is my belief that last evening's stage was set for soliciting the support of the Department of State for request of an additional American loan and that such a request was not put forward because of the diversion made to the subject of our expenditures for military purposes. On December 20 I was informed by Stilwell that a billion dollar loan had been requested by Chiang and that an answer was expected by Chiang that day. That he told me and no more. I assume that the request was made through military channels and in connection with military talks.

It is unfortunate that the Embassy is not kept fully advised of developments occurring in relations between the United States and China.

In my recent telegram there was carefully set forth the Embassy's view in regard to a further loan to China at this time. It is my firm opinion that we should take a firm stand at this time on this question. In regard to military plans for a Burma campaign calculated to restore overland transportation to China, believed by experts here to be the only possible measure for bettering the abnormal economic situation, I have no information. I am ready to believe that although the foreign exchange rate is not of concern to the masses of the people, hoarders and speculators would avail themselves of any substantial change in that rate to accelerate rising prices still further.

Nothing substantial has actually been done by the Chinese Government to find and deal with these speculators and hoarders. Nevertheless, I am of the opinion that China possesses substantial reserves of U. S. currency at this time and there might be taken, without reference to exchange rate as such, probably within the framework of the sale of gold and reverse Lend-Lease, reasonable measures to cope with the situation affecting our military expenditures in China.

Although I do not pretend to pass judgment in matters of a military character, I should stress what we have repeatedly reported previously, namely, that economic and military conditions in China are deteriorating so fast that, in order to prevent collapse of China in due course, military measures to restore the Burma Road and reopen land transportation to China are imperative at an early date. The economic situation in China will not be helped by a loan from the United States at this juncture. It can only be helped by successful military operations on an extensive scale.

28 (x)

*Secretary of the Treasury Morgenthau to Secretary Hull*

WASHINGTON, December 31, 1943

MY DEAR MR. SECRETARY: This is to acknowledge receipt of your letter of December 29th enclosing a report of December 23, 1943 from Ambassador Gauss. I appreciate your sending me this telegram and have found it of considerable interest.

I see that Ambassador Gauss is in agreement with the views expressed in our Memorandum to the President, a copy of which I sent to you in letter dated December 20, 1943.

It would seem that no further steps can be taken regarding the Chinese request for a loan until we have received a reply to our Memorandum which, as you probably know, the President said he was going to forward to President Chiang Kai-shek.

Sincerely yours,

H. MORGENTHAU, Jr.

28 (y)

*Generalissimo Chiang Kai-shek to President Roosevelt*<sup>37</sup>

I have received your recent telegram forwarded through Ambassador Gauss and am happy that you have recovered from your indisposition. I appreciate the fact that you have been endeavoring to find a solution to the economic problems of China even during your illness.

To my mind the proposals made by the Treasury Department are not those of one allied nation to another but rather are in the nature of a commercial transaction. If put into practice these proposals would not increase China's economic strength in the prosecution of the war. On the contrary the impairment of the Chinese people's confidence in *fapi* would only add to her economic difficulties. I would not make this urgent appeal to you were it not for the fact that we are entering a most critical stage. I have reached the following conclusions after giving mature consideration to the future perilous economic situation in this war theater:

(1) An out and out loan of one billion dollars from the United States would enable us partly to meet the deficit of the coming war budget and also through reciprocal aid to meet a part of American military expenses in China, such as the repair and construction of airfields and necessary installations, the feeding of American troops and the transportation of war materials, et cetera.

(2) If it is the opinion of the Treasury Department that it is not able to accept the above proposal I suggest that such expenditures as are incurred by United States forces in China should be borne by the American Government. The Central Bank of China will facilitate exchange at the official rate of US\$1 equals 20 yuan. The rate is unalterable in as much as we cannot afford to shake the confidence of the people in *fapi*, which is a stabilizing factor amidst a world of uncertainty brought about by the vicissitudes of war. It is only thus that we can directly maintain the credit of *fapi* and indirectly save China from economic collapse. Such collapse would seriously affect the whole military posi-

<sup>37</sup> Transmitted by the Ambassador in China from Chungking, Jan. 16, 1944.



tion of the Allies because of China's inability to continue resistance for any considerable length of time.

The second of these proposals is outright help which the Chinese people and army would appreciate and when it is considered that the United States has been feeding even British and Russian civilians this would be entirely in accordance with the Allied strategy of pooling resources. As an example, I might point out here that following the battle of Changteh 300,000 houses in that area were left in ruins and less than 10 buildings still remain. In this respect the people of China have suffered incalculable losses since the commencement of our war of resistance seven years ago. Our sacrifice in men and materials both civil and military is convincing proof of our willingness to give all that we are and everything that we have to the Allied cause. One of the crack units of China, 57th Division, has been entirely sacrificed.

I felt keenly when I saw you in Cairo that with your vision and wisdom you completely comprehended the critical situation which now faces this country and that you were eager to extend to our people every means of practical help in order to enable them to march forward shoulder to shoulder with the American people to common victory. I was so encouraged that I hastened to reassure the Chinese people of the solidarity and strength of our united efforts. I still feel sure that as leader of the Allied nations you will do all in your power to help China to continue her resistance and to do her full part in the global war. You realize, I am sure, that I will do all in my power to rally the support of the Chinese nation to bring about speedy victory and that I have even gone to the length of delaying the reopening of the Burma route so that essential amphibious equipment might be diverted to the European theater, thereby disappointing all classes of my countrymen who still bear in their memories the scar of the defeat suffered in the last Burma campaign as a result of which China lost large quantities of men and equipment through no fault of her own.

In the event that the Treasury Department feels unable to agree to either of the above two proposals then China will be compelled to pursue the only course open to her, namely, to continue resistance against our common enemy Japan with all her available strength and for as long as possible, thus in a way discharging her responsibilities as a member of the United Nations. In that eventuality she would have to permit her wartime economy and finances to follow the natural course of events. In such a case the Chinese Government would have no means at its disposal to meet the requirements of United States forces in China and consequently the American Army in China would have to depend upon itself to execute any and all of its projects, for to our great regret we would be placed inevitably in a position in which we could not make any further material or financial contribution, including the construction of works for military use.

28 (z)

*The Ambassador in China (Gauss) to Secretary Hull*

CHUNGKING, January 16, 1944

The Generalissimo requested that the Ambassador inform the Departments of State, Treasury and War that China would not be asking for anything were it not for the critical military and economic situation because China has pride in helping herself and in being self-sufficient; that the Generalissimo assured the Ambassador that any financial or material assistance rendered China by the

United States would not be hoarded for post-war purposes; that China would not take advantage of any situation to profit thereby and that China is neither a petty thief nor a robber baron. The Generalissimo said China had not asked for assistance last year or the year before. But the situation now is very much worse than a year ago and the cost of assisting American forces in China has become such a great strain that China is unable to keep up such assistance and that if the Treasury Department cannot help China financially, the American Army in China will have to depend on itself after March 1. The Generalissimo said that the United States forces have six weeks to make preparations and that after March 1 China could not be of material or financial assistance in connection with any project the American forces might have in mind. The Ambassador inquired whether this meant China would be unable to cooperate militarily with the United States forces in China. The Generalissimo replied that what he meant was that after March 1 American forces must look after themselves. Mr. Atcheson said he assumed this meant that the American forces must finance themselves and also make necessary arrangements for the purchase of supplies, construction materials and labor. The Generalissimo replied in the affirmative and said that China would of course continue to fight as long as she could and that as indicated in the latter part of his message to the Press she will carry on until the inevitable military and economic collapse and then will do the best possible under existing circumstances. Generalissimo Chiang said that within the past two weeks he had approved requests of United States Army headquarters that China undertake airfield projects which would cost the enormous sum of 13 billion dollars and that China simply could not finance such projects. (Madame Chiang said as an interesting sidelight that every American soldier in China cost the Chinese Government three hundred Chinese dollars per day; that there are several thousand American soldiers and that a great increase in the number of these is contemplated. She said furthermore that at the current cost of military rice 300 Chinese dollars would feed a Chinese soldier for a month; that after March 1 the United States Army would also have to feed its own soldiers and that the United States will have to depend upon itself. Madame Chiang said that date of March first was an implementation of the Generalissimo's statement set forth in the last paragraph of his message to the President.)

The Ambassador stated that it was his impression that it is the view of American economists that no amount of American money to the credit of China in the United States could remedy China's economic and financial situation any more than would be the case if our entire output of machine guns were hypothecated to China but remained in the United States. The Generalissimo replied that American economists know American economy and world economy in general but do not understand Chinese economy or Chinese psychology, the latter having a great deal to do with the situation in China. The Generalissimo said that the exchange rate is absolutely unalterable; that a maintenance of *fapi* is necessary to maintain public confidence; that a loan even though the actual cash remained in the United States would be regarded by the Chinese people as a reserve for *fapi*.

In reply to Mr. Atcheson's inquiry the Generalissimo said that the question of the Commission proposed by Mr. Morgenthau was covered in that section of his message referring to the Treasury's proposals. Mr. Atcheson pointed out that this was a suggestion made by the President. The Generalissimo replied that the Commission would be acting under directions of the Treasury and along the lines of the proposals made by the Treasury.



The Ambassador reported further that after his return to the Embassy Madame Chiang telephoned him to say that if the Commission planned to discuss the proposals made by the Treasury there was no use in its coming but if it was sent out to discuss the two proposals made by the Generalissimo it would be welcome. Among various arguments advanced by Madame Chiang was one to the effect that the expenditures of the United States forces in China amounting to approximately U. S. \$20,000,000 per month could not be dumped on the black market in a day and that dumping of even U. S. \$1,000,000 would swiftly and extensively lower the black market rate.

The Ambassador added that his comments would follow.

The Ambassador reported that while the Generalissimo rejected the suggestion of sending a commission to China to confer on the proposals made by the Treasury, he has not closed the door entirely to such a commission provided it comes to discuss the Generalissimo's proposals, namely, a loan or assumption by our Army of all expenses incurred by it in the China theater without financial or material assistance from the Chinese Government.

The Ambassador stated that if he knew of any possible means which the United States could utilize to provide aid to China at this time either to transform her contribution to the general war effort into something affirmative or to support the present economic situation which continues rapidly to deteriorate he would heartily advocate it. The Ambassador said he would at all times prefer to see us operate in China without Chinese aid; that we could completely justify our heavy expenditures in China on the basis of spiraling prices which China must also meet in her own operations; but to be compelled to increase these heavy expenditures another five times because of the unrealistic attitude on the exchange rates creates a situation which might readily lead to a charge of exploitation and react unfavorably for China if it became known in the United States.

The Ambassador said that since he had not been informed in regard to commitments or military and other plans he could not suggest how far if at all pressure might be brought to bear upon China, but expressed the opinion that, however unpleasant these developments may be, and however unfortunate it may be that disagreements with China over money matters should have arisen, we should maintain a firm position declining to be coerced by petulant gestures or threats.

The Ambassador concluded his message by stating that the conversation held the preceding evening was calm and friendly on both sides and that the Generalissimo and Madame Chiang were most cordial throughout.

28 (aa)

*Message From General Stilwell to General Somervell, March 27, 1944*

[Extract]

We are now hoping that the Chinese may take a more realistic attitude on money matters. The Generalissimo is pressing Kung to effect agreement although mention of the phrase "exchange rate" sends the Generalissimo into a tailspin. We would like to have permission to explore the possibilities of the following plan, the only one which has a chance of success at the present time.

That the Chinese continue to advance CN to U. S. Army according to our needs and their ability. At the beginning of each three-month period, the U. S. to decide on a sum of U. S. dollars which will be advanced to the Chinese during the period.

For the next three-month period this sum to be figured between 100 and 200, probably between 125 and 165, U. S. requirements in CN to be kept secret, while the Chinese may publicize our "contribution" if they think wise for stabilization purposes. The rate of exchange will not come into the transaction, and the decision on final benefit derived by the Chinese and U. S. respectively will be left to postwar negotiation.

We think that the "tri-monthly ratio" between the two contributions will become the de facto rate of final settlement, since postwar stabilization of rate must certainly be at a much lower figure. To raise a portion of their contribution to U. S. in the least inflationary manner the Chinese to be urged to sell gold and U. S. dollars on joint account. This procedure is preferable to our sale on our own account since the sales will probably produce only 20 percent of our requirement. We fully realize the disadvantage of postwar negotiation on final rate, but think that the dangers are more imaginary than real.

28 (bb)

*Secretary of War Stimson to President Roosevelt*

WASHINGTON, May 26, 1944

DEAR MR. PRESIDENT: I submit herewith a chronological résumé of the negotiations with the Chinese Government with respect to the rates of exchange covering our expenditures in China. Since the résumé necessarily is somewhat long, I am also summarizing herewith its context.

When our troops first arrived in China they found an agreed exchange rate of \$20 (Chinese) for \$1 (U.S.), which even then had no realistic relationship to the purchasing value of the Chinese yuan. However, our requirements for food and housing were small and the expenditures were assumed by the Chinese Government which also undertook the requisite airport construction. In the fall of 1943 when General Somervell visited Chungking, this situation had changed and important construction was delayed, as the Chinese Government had not provided sufficient funds. General Stilwell was making direct expenditures to obtain necessary speed in completing urgently needed facilities.

General Somervell proposed to Dr. Kung the establishment of a more favorable exchange rate. He suggested a rate of 100 to 1 in comparison with the then black market rate of 120 to 1. He proposed that we continue to procure \$20 (Chinese) for each \$1 (U.S.) with the Chinese either to donate or to make available under reverse lend-lease \$80 (Chinese) for each \$1 (U.S.).

At the Cairo Conference the United States agreed to finance further construction expenditures. However the exchange rate was not discussed. The Generalissimo on his return cabled you requesting either a loan of \$1,000,000,000 (U.S.), or the payment of Chinese expenditures at a 20 to 1 rate. As this would have made our expenditures in China astronomical, you disapproved the proposal and urged the Generalissimo to accept proposals offered by our representatives.

The Chinese had been threatening to discontinue construction. With the receipt of your message, they agreed to provide \$2,500,000,000 (Chinese) and we in turn agreed to deposit \$25,000,000 to Chinese account in this country. This was in effect a 100 to 1 rate, but the Chinese would not continue the arrangement on a monthly basis. We also forwarded \$20,000,000 (U.S.) at Chinese request for purchase by the Chinese in the black market to lower the rate. There was little confidence in this proposal and the money has not as yet been turned



over to the Chinese. Nevertheless, the Chinese continued to advance funds for the construction program subject to our shipment of \$5,000,000,000 (Chinese) per month into China. This is continuing and work to date has not been held up.

The Chinese have advanced us \$7,000,000,000 (Chinese) and have received in partial payment the one deposit of \$25,000,000. Manifestly, they are worried as to the rate for repayment. For the first time we occupy the favorable position. We have advised the Chinese consistently of our willingness to bear these expenditures at a reasonable exchange rate. The 60 to 1 rate recently proposed by Dr. Kung with \$20 (Chinese) to be purchased for each \$1 (U.S.) and \$40 (Chinese) to be provided under reverse lend-lease is not realistic in view of the present black market rate. We are not adverse to a reverse lend-lease arrangement of this type, though we do object to an unrealistic rate; and although it would result in the Chinese obtaining a greater credit for future settlement, it would appear most unlikely that funds received under reverse lend-lease at any rate approaching realism would at any time even closely approach the dollar value of direct lend-lease aid.

Perhaps our war program in China has contributed somewhat to inflation. However, the number of our troops and the magnitude of our construction are not sufficient to have a major effect. The Chinese report expenditures at approximately \$10,000,000,000 (Chinese) for support of our troops and for construction prior to the Cairo Conference. They have advanced \$7,000,000,000 (Chinese) for construction authorized at Cairo. In turn the United States has lend-leased goods valued at \$413,000,000 (U.S.). The Treasury Department granted a credit to the Chinese Government of \$500,000,000 (U.S.), against which it drew \$243,000,000. The FEA has purchased goods for \$48,000,000 (U.S.) at a 20 to 1 rate. Our forces in China have expended through February 1944 a total of \$155,000,000 (U.S.) at the rate of 20 to 1. The financial contribution of the United States has been most substantial and greatly in excess of the Chinese expenditures even at the 20 to 1 rate. A settlement of the \$7,000,000,000 (Chinese) construction advance alone at the 20 to 1 rate would involve a premium payment of over \$300,000,000 (U.S.) compared with a rate of 150 to 1, and the latter is below current black market.

The black market is continuing to rise. The rate at the present time should not be less than 150 to 1 and even this rate should be revised periodically unless the Chinese Government controls inflation.

The War Department believes that our representatives should continue to stand firm for a realistic rate. In view of the effect of any rate on military planning, commitments should not be made in Chungking without clearance in Washington by the Treasury Department and your approval.

Respectfully yours,

HENRY L. STIMSON

[Enclosure]

RÉSUMÉ OF CHINESE EXCHANGE SITUATION, 19 MAY 1944

1. The exchange situation in China first was brought to the attention of the War Department by General Stilwell early in 1943, at which time he reported that the official rate of exchange of 20 to 1 was not realistic, inasmuch as the open market rate at that time was around 40 to 1 and increasing rapidly. He called attention to the fact that with the large expenditures contemplated by the Army, definite steps should be taken to have a new official rate established.

2. The official rate of exchange of 20 to 1 was established in August 1941 and has been supported by the U. S. Government as a measure of making effective the stabilization agreement entered into with China at the same time. This stabilization agreement expired in January 1944.

3. When the matter of the rate was first reported by General Stilwell the Treasury Department was requested to give some consideration to having the Chinese effect a change in the rate and during the latter part of 1943, that department endeavored to obtain some relief in the matter. These efforts included a change in the official rate, the granting of a special rate to the United States or the sale of gold at an advantageous price to use the proceeds to decrease the excessive costs of the War Department's expenditures in China because of the unrealistic rate.

4. With a knowledge of the State and Treasury Department and undoubtedly with the full knowledge of the Chinese Government, the War Department has been paying its personnel in China U. S. currency and permitting that personnel to go into the open or black market and purchase Chinese currency at any available rate. Later, the State and Treasury Department requested the War Department to ship United States currency to China for use in paying personnel and operating expenses. The War Department has been reluctant to having its soldiers dealing in black market operations, but for morale purposes, it could not do other than authorize such a procedure in view of its failure to find other means of giving its men in China sufficient local currency to offset the unrealistic exchange rate. In addition to the morale factor, there has been the ever increasing expenditures by the War Department for supplies and construction.

5. Failing to secure relief through a change in the official rate, the War Department, early in 1943 felt the need for a reciprocal Lend-Lease agreement with China and the Chinese Government indicated that they may be willing to enter into such an agreement. Accordingly, an agreement was drafted for submission to the Chinese. In view of the exchange situation and the fact that the Treasury Department expressed the view that efforts up to that time to secure a better official rate of exchange had proved fruitless, it was decided to include in the reciprocal Lend-Lease agreement, in addition to the provisions to direct aid in kind, a section to the effect that the Chinese Government would provide funds in Chinese currency to be used by the U. S. in direct purchase of supplies, materials, facilities and services in lieu of reciprocal aid in kind and to meet the essential governmental and military needs for Chinese currency. The understanding was that this currency received under the agreement could be used in reducing the excessive cost to the U. S. of expenditures for personnel and other purposes on account of the unrealistic Chinese exchange rate. This reciprocal Lend-Lease agreement was presented to Dr. Soong, Foreign Minister of the Chinese government by the State Department in Washington in May 1943 with a memorandum explaining the purpose of the financial provisions thereof. The agreement was submitted to General Stilwell in China and was concurred in by him in view of the apparent impossibility of securing a proper exchange rate.

6. In October 1943 General Somervell visited Chungking. He was advised by General Stilwell that delays occurring in construction necessitated direct contractual expenditures by United States forces. The artificial exchange rate of 20 to 1 as compared with a black market rate of 120 to 1 was resulting in exorbitant costs. General Stilwell believed that a better arrangement was essential to our planned operations. General Somervell, with the knowledge and consent of the Ambassador, proposed to Dr. Kung, subject to ratification



by the U. S. authorities in Washington, that the Chinese Government make available to our forces the requisite Chinese currency to support these forces and the military construction under one of two alternatives:

a. The United States would deposit to Chinese account in the United States \$1 U. S. for each \$100 CN furnished, this deposit to be credited against an official exchange rate of 20 to 1, with the remaining \$80 CN to be a contribution of the Chinese Government to our joint war effort (this arrangement would protect publicly the 20 to 1 official rate); or,

b. The Chinese Government would provide the requisite funds with the United States depositing to Chinese account \$1 U.S. for \$20 CN of each \$100 CN made available, the remaining \$80 CN to be provided under a reverse lend-lease agreement.

Dr. Kung appeared to view these proposals as feasible and promised to place them before the Generalissimo for approval.

7. Shortly after General Somervell's return to the United States in November, and before the proposals could be carried further, the Cairo Conference was held. The Generalissimo attended this conference. It is understood that he was advised that the United States was prepared to bear the cost of its military effort in China. It is not understood that the question of exchange rates was considered. Subsequent to the conference, as indicated in the report of Ambassador Gauss, January 16, 1944, the Generalissimo in a message to the President urged that a loan of \$1,000,000,000 U.S. be made to China, or that, otherwise, the United States assume full responsibility for its expenditures in China at a 20 to 1 rate.

8. The Treasury Department was then negotiating with the Chinese Government with a view to transporting gold to China for purchase of Chinese currency in the open market to control inflation and to secure a better exchange rate. These negotiations did not appear to be progressing rapidly. The Secretary of Treasury recognizing the urgency of the airport construction program authorized the War Department to proceed with its own negotiations.

Representatives of the State Department concurred in this arrangement. Our military representatives were authorized to advise the Chinese that the United States was prepared to accept full responsibility for its military expenditures subject to the establishment of a reasonable exchange rate which would have some relationship to the actual purchasing power of the Chinese dollar. On 15 January our Commanding General in China and State Department representatives were advised to press for an early completion of a reverse lend-lease agreement concurrently with an agreement to be presented by military representatives with respect to the funds to be made available by the Chinese Government to cover our military expenditures. The military representatives were advised to keep in constant touch with the State Department and Treasury Department representatives so that any action taken in Chungking would be jointly understood. Mr. Edward C. Acheson was sent to China to assist the Commanding General in presenting the proposed fiscal arrangement.

9. In reply to the Generalissimo's request, referred to above, the President urged the acceptance of the proposal submitted by our military and diplomatic representatives. It is to be noted that the authorities in this country were in agreement that there was little merit in the proposed loan to China.

10. Our military and diplomatic representatives proceeded with the negotiations. In the latter part of January estimates became available with respect to the substantial construction costs involved in the new airport projects. Meanwhile the black market exchange rate had continued to advance and payments in

American dollars at a 20 to 1 rate would have become astronomical in comparison to the value received in work. The War Department would have found it necessary to have requested additional funds for the purpose from Congress and was apprehensive that the exorbitant costs would have serious repercussions. Again on 24 January our military representatives were advised to maintain a firm stand, but to inform the Chinese Government that the United States was prepared to place to Chinese account the U.S. dollar equivalent of any Chinese funds made available under general arrangements which they would suggest to the Chinese Government.

11. Dr. Kung was designated by the Generalissimo to receive the United States' proposals. Our representatives proposed as an interim measure that the United States would purchase \$1,000,000,000 CN at the rate of 40 to 1 through the deposit of \$25,000,000 U.S. to Chinese account in this country. The Chinese Government would add \$1,500,000,000 CN to this account. This proposal would have established an interim exchange rate of 100 to 1. The Chinese Government did advance the first funds and the \$25,000,000 U.S. in payment thereof was deposited to Chinese account. However the Chinese Government did not accept the proposal as a continuing measure. On 3 February Dr. Kung made a counter-proposal to continue the official exchange rate of 20 to 1 with the Central Government contribution \$10 CN more for each \$1 U.S. under reverse lend-lease. Our representatives turned down this proposal. They advised us on 12 February that they could see no benefit in further proposals. However, Dr. Kung was asked to advance \$1,000,000,000 CN per month during the remainder of the negotiations with the repayment rate to be decided during negotiations.

12. Report of expenditures at this time indicated that our own expenditures in China had increased from \$400,000 in January 1943 to \$23,000,000 in December. Estimates for airport and other construction indicated a requirement of approximately \$2,500,000,000 CN monthly. Payment for these funds at a 20 to 1 rate as compared with the proposed 100 to 1 rate would have resulted in an annual premium to the Chinese Government in excess of \$1,000,000,000. However, the proposed rate of 100 to 1 was still below the real purchasing value which was more adequately expressed by the black market rate which had reached 150 to 1. On February 20 General Stilwell was advised that he must continue to take a firm stand while still expressing the willingness of the United States to bear full costs at a reasonable exchange rate. On February 25 we were advised by our military representatives that Dr. Kung had asked for \$20,000,000 U. S. to be flown to China as an advance to the Chinese account with the rate to be determined later. These funds Dr. Kung proposed to use for the purchase of Chinese currency in the black market in an effort to drive down the black market rate. At the suggestion of our representatives, and with the approval of the Treasury Department, this money was flown to India in the understanding that \$5,000,000 U. S. was to be made available to the Chinese Government to test the effect of the proposed purchases prior to utilizing the full amount. These funds have not as yet been turned over to the Chinese Government as our representatives on the ground felt that the transfer might prove detrimental in view of the existing status of negotiations.

13. On March 2 our representatives advised us that the Chinese Government had agreed to furnish not to exceed \$5,000,000,000 CN per month to our forces provided the requisite money in Chinese currency was shipped from the United States, with March and April requirements to be shipped by air. Arrangements were made to meet this request.



14. During the period of negotiations the construction work has been proceeding satisfactorily. As our proposal with respect to the deposit of \$25,000,000 U. S. per month to the Chinese account in the United States in exchange for \$2,500,000,000 CN had not been accepted by the Chinese Government, only the initial deposit was made. Since we are obtaining all of the funds needed without an exchange commitment, our representatives in China believed it undesirable to submit further proposals to the Chinese. They awaited counter-proposals from the Chinese Government. On May 7 our representatives advised us that the Chinese were pressing hard for a financial agreement at a 60 to 1 rate, \$40 CN of each \$60 CN furnished to be credited as reverse lend-lease. As the black market was continuing to rise, our representatives were unwilling to accept this offer and insisted on a three months' agreement for a rate of 150 to 1. Our representatives in the field reported that the Chinese Government would make a direct appeal to the United States.

15. It is important to note that the Chinese Government has receded considerably from its stand taken in 1943, and from its even more adamant stand taken in December 1943 and January 1944, as a result of the firm position taken by the United States. While the work undertaken by the American forces and payment therefor may aggravate the distress of the Chinese economy, it is very doubtful if its influence on the inflation difficulties is a major contributing factor. In local areas where work is being carried on, our expenditures will have more serious effect on inflationary difficulties than elsewhere, but even there our expenditures are not the primary cause of their economic disturbance. In any event, it is difficult to understand the effect of the rate of exchange on this economy as the United States funds made available to China would accumulate as a credit to be drawn against after the war. It would be difficult to justify an artificial exchange rate which would make the cost of American participation in the war in China out of all proportion to the actual value of the work received, particularly taking into consideration the relatively low cost of labor in China as compared with the United States.

16. The extent of United States aid to China must also be taken into consideration in determining the exchange rate which is to be accepted. Lend-Lease aid to China has aggregated more than \$400,000,000 U.S., although some of the Lend-Lease material is still stock piled in India as transportation has not been available for its movement to China. At a realistic rate, this Lend-Lease expenditure alone is equivalent to \$60,000,000,000 CN.

In addition thereto, the Treasury Department granted a credit to the Chinese Government of \$500,000,000 U.S. in March 1942 against which \$243,000,000 has been drawn at the end of 1943.

The Foreign Economic Administration will have purchased in China from 1941 through June 1944 approximately \$48,000,000 U.S. which at the official rate would purchase \$960,000,000 CN worth of merchandise (strategic materials). At a realistic rate of 100 to 1 as a conservative average for the period, these purchases would have cost only \$9,600,000 U.S. This means that over the period the Chinese Government had been benefited as a result of the unrealistic exchange rate by a premium of \$38,400,000 U.S.

Likewise, our forces in China have expended for the period 1 January 1943 to include February 1944 a total of \$155,550,000 U.S. which at the official rate of exchange total \$3,111,000,000 CN. Expenditures during the month of March and April 1944 have been on the basis of the new agreement, whereby the Chinese advanced to us the currency required for our needs and we in turn deposited U. S. currency to the credit of the Chinese Government in such amount as the

Commanding General, U. S. Forces reports as properly due. The total amount reported by the Commanding General, U. S. Forces under this agreement to have been received up to April 23 is \$7,680,000,000 CN. (How much of this should be credited as a Chinese contribution to the war effort, and how much the United States Government is expected to reimburse the Chinese cannot be determined in Washington at this time in view of the fact that negotiations in this respect are being carried on by General Stilwell in China.) This is a total expenditure in Chinese currency to date of \$10,791,000,000 CN. This would cost the U. S. at the official rate of 20 to 1 \$539,550,000 U.S. whereas at a realistic rate of 150 to 1 it would cost only \$72,000,000. This means that the U. S. pays a premium on these expenditures of \$467,550,000 due to the unrealistic rate.

Dr. Kung in a letter to the Secretary of War has reported Chinese expenditures during part of February and all of March and April as aggregating \$7,016,000,000 CN. The Chinese state, however, in addition to this amount the Chinese Government has paid out since September 1942 for construction of airfields, barracks, air force supplies and improvement of roads at the request of the United States authorities a total of \$10,878,260,457 CN.

While the cost of the services furnished the United States forces in China cannot be verified, his estimate of construction cost in 1944 of \$7,000,000,000 CN is in agreement with our own figures. The United States has deposited against this advance of \$7,000,000,000 CN the sum of \$25,000,000 U.S. to Chinese credit in the United States.

17. In view of the large sums involved and the continuing expenditures, it is apparent that the agreed exchange rate may have a decided influence on military operations and on military planning. While it is desirable for a firm agreement to be effected at the earliest possible date, the importance of such agreement to contemplated military operations warrants its careful consideration in Washington before it is accepted formally. It is suggested, therefore, that any arrangements which may be proposed in Chungking be tentative until their effect on military operations can be studied by our Government in Washington so that all factors may be taken into consideration. It is apparent that the American position has constantly improved during the progress of the negotiations as a result of the firm stand taken by all of our representatives working in close agreement. Meanwhile, military construction has proceeded without delay.

## 28 (cc)

### *Minutes of a Meeting on Chinese Gold Purchases* <sup>38</sup>

Present: Mr. White  
Mr. Bernstein  
Mr. Hsi Te-mou  
Mr. T. L. Soong  
Mr. Y. C. Koo  
Mr. Adler

Mr. Hsi gave Mr. White a copy of the following telegram from K. K. Kwok:

"As Federal Reserve Bank of New York advised having shipped balance by plane thus exhausting our \$20 million and as sales still extremely heavy and recent arrivals far from being adequate to meet outstanding contracts, please request

<sup>38</sup> Held in the office of Mr. H. D. White, Director of the Division of Monetary Research, Treasury Department, on Oct. 2, 1944.



U. S. Treasury immediately transfer US\$20 million or if possible more out of \$200 million and ship by plane. Please contact Adler and give him my best regards."

Mr. White raised the general question of the merits of selling US\$200 million of gold in the existing situation. He pointed out that China's gold would be an enormous asset to her after the war if still conserved as it could provide a base for economic reconstruction as well as for reorganization of the currency. If it were sold now it might have some little psychological effect but could not substantially retard rising prices or the basic economic situation which was due to the acute scarcity of goods. Moreover, much of the gold would disappear into hoards and might emerge from those hoards either very slowly or not at all. Mr. White asked who was buying the gold and Mr. Koo replied that it was distributed from Chungking to Sian, Lanchow, Chengtu, etc. where it was bought by farmers and amahs.

Mr. Y. C. Koo indicated that sale of gold had had some beneficial effect and that the cessation of the sale of gold would send prices skyrocketing. The question was then raised of the discrepancy between the price at which gold was sold by the Central Bank and the black market price. Mr. White pointed out that with the existence of such a spread sometimes amounting to CN\$5-6,000 somebody was making a profit and it was not the government. The Secretary had shown some interest in this question. Mr. Soong expressed surprise that the spread had been so high, Mr. Adler adding that it had been as much as 60% of the official price in the early part of September and then had dropped to CN\$1,500 with the arrival of gold. There was some discussion of the relationship between spot and forward prices, Messrs. Koo and Soong claiming that the main reason for the discrepancy between the price at which the Central Bank sold and the black market price was the non-availability of supplies in Chungking. If there were sufficient supplies of gold, the discrepancy could be obliterated. Mr. Hsi pointed out that even with current arrivals, forward sales exceeded Central Bank's supplies of gold. It was also pointed out that the existence of high rates of interest might explain part of the discrepancy between spot and forward but after some comment by Mr. White and Mr. Bernstein, Messrs. Soong and Koo emphasized that the market's lack of confidence in the Central Bank's ability to procure adequate supplies was apparently the main reason.

Mr. White pointed out that it was cheaper for the Central Government to print fapi than to absorb fapi in exchange for gold at a time when the dent that was being made by the sale of gold was not significantly large. Mr. Koo stated that in the month of July two billion fapi had been absorbed by the sale of gold, Mr. Adler adding that the note issue in July was 9 billion fapi. Mr. Y. C. Koo mentioned that U.S. Army expenditures had been the major factor in the deterioration of the economic situation and alluded to the good relations that had existed between the Treasury and the Ministry of Finance during the past ten years. Mr. White said there was no question of that; in fact were it not for these good relations the Treasury would not be interested in how China utilized her gold. He was anxious to see that she got the maximum advantage from such utilization.

He asked how much gold China had left. Mr. Hsi replied that she had US \$10 million left from a previous account and that Dr. Kung was anxious to get more gold through use of the half billion dollar loan. In fact, Dr. Kung was asking for \$50 million of gold for sale of gold bullion and \$100 million of gold for minting token coins. Mr. Koo and Mr. Soong stressed the fact that the cessa-

tion of the sale of gold would have very serious effects at this time. Mr. White asked whether people who bought forward could receive cash for their delivery certificates and the answer was in the affirmative. Mr. White pointed out this fact should reduce the spread between spot and forward. Mr. Adler asked why the price of gold had been lowered in July. Mr. Koo and Mr. Hsi said they would cable to Chungking for an explanation, Mr. Hsi confessing that it appeared to have been a mistake.

Mr. Hsi expressed the desire to take up the question of the minting of coins. Mr. White indicated that it should be taken up with Mr. Adler and the people from the Mint.

Mr. White concluded the meeting by saying that he would take up the matter with the Secretary and get in touch with the Chinese again.

28 (dd)

*Memorandum by Secretary of the Treasury Morgenthau<sup>39</sup>*

1. This memorandum does not deal with the questions of textiles and trucks which were included in the program which was presented to this Government. The urgency of China's need for these items and their bearing upon inflation are recognized. They are omitted because our supply authorities are in the process of making an over-all determination of requirements and supplies and are not yet in a position to make a decision respecting China's requests.

2. We are agreed that any program to stabilize the currency and to check inflation should comprise a broad series of measures in the following categories:

- (a) Monetary and banking rehabilitation.
- (b) Foreign exchange stabilization.
- (c) Fiscal and administrative reforms.
- (d) Increase of supplies and improvement in their distribution.

3. We are anxious to give full support to an effective anti-inflationary program for China. It is therefore recommended that a Currency Stabilization Fund of \$500 million be constituted for this purpose from the remaining \$240 million of the United States loan to China and from China's existing dollar balances. Such an allocation of this remainder of the United States loan would be in strict accordance with the spirit and the letter of the 1942 financial agreement. The Fund would be set aside with firm mutual commitment on the part of China and the United States as to its purposes and availability.

It is envisaged that the uses to which this Currency Stabilization Fund would be put would be part of a broad concerted program for combatting inflation and for currency stabilization and these uses would be subject to joint agreement. The time at which the Fund's operations would start would be discussed at a later date.

The Treasury stands ready to advise and consult with the Chinese Government on the content and timing of such anti-inflationary and stabilization program. We are strongly of the opinion that the initiation of a Currency Stabilization Fund would strengthen the financial position of the Chinese Government and would inspire confidence both at home and abroad in its future economic and financial stability. The existence of such a Fund would give the Chinese people a real sense of security with respect to their ability to cope with their grave problems of reconstruction.

<sup>39</sup> Handed to Dr. T. V. Soong on May 8, 1945.



It should be noted that this proposal relates to only one portion of the foreign exchange assets presently available to China and that it would leave a relatively large amount of dollar exchange for helpful intermediate measures and for meeting China's current foreign exchange requirements.

4. We believe that the Chinese Government should terminate the program of forward sales of gold. As you know, the U. S. Treasury was not consulted when this program was initiated. In view of the difficulties of shipping gold, the limited effects of sales upon price rises in China, the public criticism of such sales and the desirability of using foreign exchange resources to achieve maximum effects, this program is ill-advised.

5. The Treasury will endeavor, as in the past, to make available limited quantities of gold for shipment to China during the next few months, having due regard to the need for restricting gold shipments where these endanger lives or use scarce transport facilities. However, in consideration of points 2 and 3 above, it is believed that further shipments should be financed out of foreign exchange assets other than those proposed to be earmarked for currency stabilization.

6. China should investigate and cancel sales to speculators and illicit purchasers and insure that only bona fide purchasers will receive such gold as is available. If gold arrivals are still not sufficient to meet past commitments, it is suggested that China may offer to place dollar credits (at about \$35 per ounce) for the time being from her existing assets to the accounts of purchasers of gold to whom she cannot temporarily make delivery.

7. It is most unfortunate that the impression has arisen in the United States that the \$200 million of U. S. dollar certificates and bonds and the gold sold in China have gone into relatively few hands with resultant large individual profits and have failed to be of real assistance to the Chinese economy.

28 (ee)

*Minutes of a Meeting on Gold Fund for China*<sup>40</sup>

Present: Secretary Morgenthau

Mr. D. W. Bell	}	Treasury
Mr. Coe		
Mr. Adler		
Mr. Friedman		
Mr. Clayton	}	State
Mr. Collado		
Mr. T. V. Soong	}	China
Mr. Tsu-yee Pei		
Mr. W. Y. Lin		

Before Dr. Soong, Mr. Pei and Mr. Lin joined the meeting, there was a brief discussion of what the Chinese would be told. In this discussion Mr. Coe made the point that he still favored the establishment of the \$500 million fund and pointed out that our memorandum was not inconsistent with our commitment to the Chinese. The Secretary indicated that he was prepared to give them the remainder of the \$200 million of gold.

When Dr. Soong, Mr. Pei and Mr. Lin joined the meeting, the Secretary asked Dr. Soong for the answer to his questions on how much gold China would need

<sup>40</sup> Held in the office of the Secretary of the Treasury, Mr. Morgenthau, on May 9, 1945.

for the next three months. Dr. Soong replied that in addition to the outstanding commitments the Chinese planned to sell about 1 million ounces during the next three months. The Secretary asked the "experts" to agree on the figures after the meeting.

Dr. Soong then read a memorandum proposing a reconstruction fund which, in effect, indicated that the Chinese wanted much larger loans from the United States.

The Secretary replied that we would give their proposal our careful consideration. He then went on to say that the establishment of a \$500 million Fund would assist him in furthering China's interest before Congress. At this time, he said he was asking Dr. Soong to reconsider their decision to see whether they could not see their way clear to the establishment of such a Fund.

Dr. Soong replied that he could not do it; that he could only consider it if the Fund was established out of new loans. He, moreover, could not be responsible for the mistakes made in his absence and these mistakes were now being overcome. He, Dr. Soong, had not objected to the publicity on the mishandling of the Funds. He had not opposed sale of U.S. dollar savings certificates and bonds, but it had been stupid to stick to the original 20 to 1 rate.

The Secretary pointed out that he would like to be helpful and that, in effect, it was merely a matter of re-arrangement of Chinese bookkeeping in order to set up this Fund. If Dr. Soong decided not to accept the proposal on the \$500 million Fund, the Secretary would obviously be disappointed. However, the commitment to make available the remainder of the \$200 million of gold was not tied up with the fund proposal and the Treasury would study ways of accelerating gold shipments.

28 (ff)

*The Chinese Minister for Foreign Affairs (Soong) to Secretary of the Treasury Morgenthau*

[WASHINGTON] May 9, 1945

MY DEAR MR. SECRETARY: May I express my appreciation of the frank talk we had at luncheon, and the helpful attitude you showed at the conference this afternoon.

I have cabled to the Generalissimo your suggestion of setting up a \$500 million Reconstruction Fund, and will let you know as soon as I have his reply. I added that you recognized that the above suggestion and the question of gold delivery are two separate matters; that there is no question of the validity of your prior commitment; that you are ready to meet it; and that gold will be made available.

In view of the urgency of the situation, I shall appreciate it if you will kindly designate some member of your Department to discuss the details with my assistants, Mr. Tsu-yee Pei and Dr. W. Y. Lin, so that the necessary shipments could be made at once.

As Mr. Clayton said this afternoon, I have to return to San Francisco to meet my engagements there, accordingly I shall be grateful for your prompt reply.

Faithfully yours,

T. V. SOONG



28 (gg)

*Acting Secretary of State Grew to Secretary of the Treasury  
Morgenthau*

WASHINGTON, May 16, 1945

MY DEAR MR. SECRETARY: The Department has given careful attention to the request of the Chinese Foreign Minister, Dr. T. V. Soong, for the delivery during the remainder of 1945 of about \$190,000,000 of gold from the unused balance of the \$500,000,000 credit approved by the Congress in January 1942.

It is the Department's view, which it understands is shared by the Treasury, that the sale of gold by China has not proved and is not likely to prove a very effective anti-inflationary device. Moreover, it believes that the establishment of a \$500,000,000 fund for combating inflation and stabilizing the Chinese currency which you proposed last week to Dr. Soong would, if adopted by the Chinese Government, be of considerable short and long run benefit to China.

The Chinese Government believes, however, that the immediate political and psychological as well as real economic effects of a continued and accelerated gold sale policy will have a vital importance in the critical situation confronting it, and strongly requests the delivery of the gold in question in accordance with the terms of the understanding between the two governments of July 1943. Since there appears to be no doubt that the Chinese Government attaches a greater importance to the immediate delivery of the gold than to the longer run benefits which might result from the establishment of the fund which you have proposed and since the continued stability of China and her increasing military efforts in the war against the common enemy are of great concern to the United States, the Department recommends that the Treasury, if transportation is available, deliver the gold to China in accordance with the time schedules put forward by Dr. Soong.

Sincerely yours,

JOSEPH C. GREW

28 (hh)

*Secretary of the Treasury Morgenthau to the Chinese Minister for  
Foreign Affairs (Soong)*

WASHINGTON, May 16, 1945

DEAR MR. SOONG: This is to confirm what I told you today. In accordance with your memorandum of May 11, the Treasury is prepared to authorize the shipment of the balance of the \$20 million of gold which is on earmark with the Federal Reserve Bank of New York for the Central Bank of China and to transfer the balance of \$180 million to the account of the Central Bank of China with the Federal Reserve Bank of New York, in three equal monthly installments of \$60 million from May to July 1945. The Treasury accepts the schedule of gold shipments contained in your memorandum of May 11, 1945 and is making arrangements with the Army to carry out the shipments of the gold according to that schedule. The preliminary arrangements to ship the requested amount for the month of May have already been made. These steps are being taken in accordance with our Financial Aid Agreement of March 1942 and my letter to Dr. Kung of July 27, 1943.

At this time it seems to me necessary and desirable to point out that the purpose of the \$500 million of financial aid to China, and particularly my agreement in July 1943 to ship gold to China, was to assist in an anti-inflationary program which would strengthen confidence in the Chinese Government and its finances and thereby help maintain the Chinese economy. As you know, it is my opinion that the sale of gold by China has not proved effective in combating inflation, and I am doubtful that it will prove effective. Also as I have told you, the manner in which the gold sales have been conducted and the consequent public criticism of them in China are not conducive to achieving the purposes for which our financial aid was granted.

Therefore, I would respectfully ask the Chinese Government to consider carefully the matters proposed to you in my memorandum of May 8, 1945. In particular I would reiterate my suggestion that China constitute a \$500 million fund for combating inflation and stabilizing the currency from its foreign exchange assets. I think that this step would be of considerable short and long-run benefit to China and would inspire confidence in the Chinese Government's handling of its difficult economic situation.

The Treasury has noted with great interest the intention of the Chinese Government, as stated in your memorandum to the Secretary of State, to effectuate reforms relating to financial and economic matters. We think that the carrying out of these reforms will do more to insure confidence among the people and give a measure of stability to the present economic and financial situation than the gold program.

I know that you and your Government will take these friendly suggestions in the spirit in which they are offered. As I told you, we intend to carry out faithfully our financial agreement of 1942. However, the Chinese Government's response to our proposal to institute a \$500 million fund and her conduct of the gold sales program will be important considerations in our financial relations with China.

This Government has as prime objectives the defeat of Japan and the liberation of China. As an old friend of China, I believe that our faith and confidence in China will be justified.

Very truly yours,

H. MORGENTHAU, JR.

28 (ii)

*Information Requested in Connection with the Uses of the 1942 \$500 Million China Aid Credit*<sup>41</sup>

- I. U. S. dollar allocations of the \$500 million aid by purpose and amount.
  - A. Redemption of U. S. dollar securities issued in China in 1942.
    1. Types of securities issued, maturity, rate of interest, exchange rate at which sold and at which redeemed, whether or not negotiable, and the pertinent regulations, if any, concerning their use as collateral from 1942 to date.
    2. Breakdown with respect to each type of security issued of:
      - a. The U.S. dollar value of sales to date.
      - b. The U.S. dollar face value of the securities redeemed to date.

<sup>41</sup> Enclosure in a letter from J. Burke Knapp, Director, Office of Financial and Development Policy, Department of State, to Dr. Shao-Hwa Tan, Minister, Chinese Embassy at Washington, June 9, 1948. To date, the information requested has not been received.



- c. The actual amount of U.S. dollars paid out for the redemption of securities by months and the total to date.
  - e [d]. The actual amount of U.S. dollars paid out in interest on the securities by months and the total to date.
  - f [e]. The amount of U.S. dollars the Chinese Government expects to pay out in interest and principal in the future on outstanding securities.
  - g [f]. The U.S. dollar value of purchases of securities by foreigners from the Central Bank of China and from other banks authorized to market the securities.
  - 3. Breakdown with respect to each type of security of:
    - a. The U.S. dollar value of sales to government and semi-government institutions by months and the total to date.
    - b. The actual amount of U.S. dollars paid out to government and semi-government institutions for the redemption of securities owned by these institutions.
  - B. Sales of gold purchased by the Chinese Government out of the \$500 million financial aid.
    - 1. Breakdown of the amount of gold sold in the form of spot gold, forward gold, and gold certificates by months and the total to date, with prices at which sold.
    - 2. The amount of gold delivered to purchasers by months and the total to date, with details of the proceeds of the tax in gold and Chinese currency and of the impact on deliveries of gold to purchasers of the 40 percent tax on undelivered gold imposed in July 1945.
    - 3. Breakdown of the amount of gold sold in the form of spot gold, forward gold, and gold certificates to government and semigovernment institutions and the amount delivered by months and the total to date.
    - 4. Regulations, if any, concerning the status of gold as collateral from 1943 to date.
  - C. Breakdown of all other dollar expenditures by the Chinese Government out of the \$500 million financial aid by purpose, by amount and by months and total to date.
- II. Chinese currency proceeds of the sales of U. S. dollar securities, gold, and other assets procured from the 1942 financial aid.
- A. Amount of Chinese currency receipts.
    - 1. Breakdown of amount of Chinese currency receipts by source (U.S. securities, gold, etc.), by months and by fiscal years and the total to date.
    - 2. Percentage of total government revenue constituted by Chinese currency receipts of sales of U.S. securities, gold, etc. by months and fiscal years to date.
  - B. Uses of Chinese currency receipts.
    - 1. Amounts of government expenditures financed by these Chinese currency receipts by months and the total to date.
    - 2. Percentage of total government expenditures constituted by B. 1 by months and fiscal years to date.
  - C. Amounts of Chinese currency, if any, paid out for interest on and for the redemption of U. S. dollar securities.

29(a)

*President Roosevelt to Generalissimo Chiang Kai-shek,  
February 7, 1942*<sup>42</sup>

It is a source of great gratification to me and to the Government and people of the United States that the proposal which I made to the Congress that there be authorized for the purpose of rendering financial aid to China in the sum of \$500,000,000 was passed unanimously by both the Senate and the House of Representatives and has now become law.

The unusual speed and unanimity with which this measure was acted upon by the Congress and the enthusiastic support which it received throughout the United States testify to the wholehearted respect and admiration which the Government and people of this country have for China. They testify also to our earnest desire and determination to be concretely helpful to our partners in the great battle for freedom. The gallant resistance of the Chinese armies against the ruthless invaders of your country has called forth the highest praise from the American and all other freedom loving peoples. The tenacity of the Chinese people, both armed and unarmed, in the face of tremendous odds in carrying on for almost five years a resolute defense against an enemy far superior in equipment is an inspiration to the fighting men and all the peoples of the other United Nations. The great sacrifices of the Chinese people in destroying the fruits of their toil so that they could not be used by the predatory armies of Japan exemplify in high degree the spirit of sacrifice which is necessary on the part of all to gain the victory toward which we are confidently striving. It is my hope and belief that use which will be made of the funds now authorized by the Congress of the United States will contribute substantially toward facilitating the efforts of the Chinese Government and people to meet the economic and financial burdens which have been thrust upon them by an armed invasion and toward solution of problems of production and procurement which are essential for the success of their armed resistance to what are now our common enemies.

I send you my personal greetings and best wishes. I extend to you across land and sea the hand of comradeship for the common good, the common goal, the common victory that shall be ours.

29(b)

*Joint Statement by Secretary of the Treasury Morgenthau and Dr.  
T. V. Soong, Chinese Minister for Foreign Affairs, March 21, 1942*

The United States and China have today entered into an Agreement giving effect to the Act of Congress unanimously passed by the Senate and House of Representatives authorizing \$500,000,000 of financial aid to China. The Agreement, approved by the President and by Generalissimo Chiang Kai-shek, was signed by Secretary Morgenthau on behalf of the United States and by Dr. Soong on behalf of China.

This financial aid will contribute substantially towards facilitating the great efforts of the Chinese people and their government to meet the financial and

<sup>42</sup> *Department of State Bulletin*, Feb. 7, 1942, p. 142.



economic burdens which have been imposed upon them by almost five years of continuous attack by Japan.

This Agreement is a concrete manifestation of the desire and determination of the United States, without stint, to aid China in our common battle for freedom.

The final determination of the terms upon which this \$500,000,000 financial aid is given to China, including the benefits to be rendered the United States in return, is deferred until the progress of events after the war makes clearer the final terms and benefits which will be in the mutual interest of the United States and China and will promote the establishment of lasting world peace and security.

The text of the Agreement is as follows:

"WHEREAS, The Governments of the United States of America and of the Republic of China are engaged, together with other nations and peoples of like mind, in a cooperative undertaking against common enemies, to the end of laying the bases of a just and enduring world peace securing order under law to themselves and all nations, and

"WHEREAS, The United States and China are signatories to the Declaration of United Nations of January 1, 1942, which declares that 'Each government pledges itself to employ its full resources, military or economic, against those members of the Tripartite Pact and its adherents with which such government is at war'; and

"WHEREAS, the Congress of the United States, in unanimously passing Public Law No. 442, approved February 7, 1942, has declared that financial and economic aid to China will increase China's ability to oppose the forces of aggression and that the defense of China is of the greatest possible importance, and has authorized the Secretary of the Treasury of the United States, with the approval of the President, to give financial aid to China, and

"WHEREAS, such financial aid will enable China to strengthen greatly its war efforts against the common enemies by helping China to

"(1) strengthen its currency, monetary, banking and economic system:

"(2) finance and promote increased production, acquisition and distribution of necessary goods;

"(3) retard the rise of prices, promote stability of economic relationships, and otherwise check inflation;

"(4) prevent hoarding of foods and other materials;

"(5) improve means of transportation and communication;

"(6) effect further social and economic measures which promote the welfare of the Chinese people; and

"(7) meet military needs other than those supplied under the Lend-Lease Act and take other appropriate measures in its war effort.

"In order to achieve these purposes, the undersigned, being duly authorized by their respective Governments for that purpose, have agreed as follows:

#### ARTICLE I.

"The Secretary of the Treasury of the United States agrees to establish forthwith on the books of the United States Treasury a credit in the name of the Government of the Republic of China in the amount of 500,000,000 U. S. dollars. The Secretary of the Treasury shall make transfers from this credit, in such amounts and at such times as the Government of the Republic of China shall request, through the Minister of Finance, to an account or accounts in the Federal Reserve Bank of New York in the name of the Government of the Republic of China or any agencies designated by the Minister of Finance. Such transfers may be requested by and such accounts at the Federal Reserve Bank of New York may be drawn upon by the Government of the Republic of China either

directly or through such persons or agencies as the Minister of Finance shall authorize.

#### ARTICLE II.

"The final determination of the terms upon which this financial aid is given, including the benefits to be rendered the United States in return, is deferred by the two contracting parties until the progress of events after the war makes clearer the final terms and benefits which will be in the mutual interest of the United States and China and will promote the establishment of lasting world peace and security. In determining the final terms and benefits full cognizance shall be given to the desirability of maintaining a healthy and stable economic and financial situation in China in the post-war period as well as during the war and to the desirability of promoting mutually advantageous economic and financial relations between the United States and China and the betterment of world-wide economic and financial relations.

#### ARTICLE III.

"This Agreement shall take effect as from this day's date.

"Signed and sealed at Washington, District of Columbia, in duplicate this 21st day of March, 1942.

"On behalf of the United States of America

HENRY MORGENTHAU, Jr.  
*Secretary of the Treasury*

"On behalf of the Republic of China

T. V. SOONG  
*Minister for Foreign Affairs."*

#### 30

#### *Statement by Acting Secretary Welles, July 19, 1940*<sup>43</sup>

In response to inquiries from press correspondents with regard to the British Prime Minister's comments upon the question of extraterritoriality in China included in his statement of July 18, the Acting Secretary of State, Mr. Sumner Welles, commented as follows:

"The most recent statement of this Government on this subject is contained in a note presented on December 31, 1938, to the Japanese Government, which mentions *inter alia* the progress made toward the relinquishment of certain rights of a special character which the United States together with other countries has long possessed in China. In 1931 discussions of the subject between China and each of several other countries, including the United States, were suspended because of the occurrence of the Mukden incident and subsequent disrupting developments in 1932 and 1935 in the relations between China and Japan. In 1937 this Government was giving renewed favorable consideration to the question when there broke out the current Sino-Japanese hostilities, as a result of which the usual processes of government in large areas of China were widely disrupted.

"It has been this Government's traditional and declared policy and desire to move rapidly by process of orderly negotiation and agreement with the Chinese Government, whenever conditions warrant, toward the relinquishment of extra-

<sup>43</sup> *Foreign Relations of the United States, Japan, 1931-1941*, vol. I, p. 927.



territorial rights and of all other so-called 'special rights' possessed by this country as by other countries in China by virtue of international agreements. That policy remains unchanged."

## 31

*Secretary Hull to the Appointed Chinese Minister for Foreign Affairs (Quo Tai-chi) "*

WASHINGTON, May 31, 1941.

MY DEAR MR. MINISTER: I acknowledge the receipt of and thank you for your letter of May 26, 1941 in regard to your visit to Washington and to our conversations during your short sojourn here.

We greatly enjoyed your visit.

It is very gratifying to receive in your letter reaffirmation of the endorsement by the Chinese Government and people of the general and fundamental principles which this Government is convinced constitute the only practical foundation for an international order wherein independent nations may cooperate freely with each other to their mutual benefit.

As you know, the program in which the Government and people of the United States put their trust is based upon and revolves about the principle of equality of treatment among nations. This principle comprehends equality in international relations in a juridical sense, nondiscrimination and equality of opportunity in commercial relations, and reciprocal interchange in the field of cultural developments. Implicit in this principle is respect by each nation for the rights of other nations, performance by each nation of established obligations, alteration of agreements between nations by processes not of force but of orderly and free negotiation, and fair dealing in international economic relations essential to peaceful development of national life and the mutually profitable growth of international trade. One of the purposes of this program is to effect the removal of economic and other maladjustments which tend to lead to political conflicts.

As you are also aware, the Government and people of the United States have long had a profound interest in the welfare and progress of China. It goes without saying that the Government of the United States, in continuation of steps already taken toward meeting China's aspirations for readjustment of anomalies in its international relations, expects when conditions of peace again prevail to move rapidly, by processes of orderly negotiation and agreement with the Chinese Government, toward relinquishment of the last of certain rights of a special character which this country, together with other countries, has long possessed in China by virtue of agreements providing for extraterritorial jurisdiction and related practices.

This Government welcomes and encourages every advance made by lawful and orderly processes by any country toward conditions of peace, security, stability, justice and general welfare. The assurances given in Your Excellency's letter under acknowledgment of China's support of the principle of equality of treatment and nondiscrimination in economic relations should have wholesome effect both during the present period of world conflict and when hostilities shall have ceased.

The Government of the United States is dedicated to support of the principles in which the people of this country believe. Without reservation, we are con-

<sup>44</sup> *Ibid.*, p. 929.

fidant that the cause to which we are committed along with China and other countries—the cause of national security, of fair dealing among nations and of peace with justice—will prevail.

With kindest regards [etc.]

Sincerely yours,

CORDELL HULL

32

*Treaty Between the United States and China for the Relinquishment of Extraterritorial Rights in China and the Regulation of Related Matters, Signed at Washington, January 11, 1943, With Accompanying Exchange of Notes*<sup>45</sup>

The United States of America and the Republic of China, desirous of emphasizing the friendly relations which have long prevailed between their two peoples and of manifesting their common desire as equal and sovereign States that the high principles in the regulation of human affairs to which they are committed shall be made broadly effective, have resolved to conclude a treaty for the purpose of adjusting certain matters in the relations of the two countries, and have appointed as their Plenipotentiaries:

The President of the United States of America,

Mr. Cordell Hull, Secretary of State of the United States of America, and

The President of the National Government of the Republic of China,

Dr. Wei Tao-ming, Ambassador Extraordinary and Plenipotentiary of the Republic of China to the United States of America;

Who, having communicated to each other their full powers found to be in due form, have agreed upon the following articles:

ARTICLE I

All those provisions of treaties or agreements in force between the United States of America and the Republic of China which authorize the Government of the United States of America or its representatives to exercise jurisdiction over nationals of the United States of America in the territory of the Republic of China are hereby abrogated. Nationals of the United States of America in such territory shall be subject to the jurisdiction of the Government of the Republic of China in accordance with the principles of international law and practice.

ARTICLE II

The Government of the United States of America considers that the Final Protocol concluded at Peking on September 7, 1901, between the Chinese Government and other governments, including the Government of the United States of America, should be terminated and agrees that the rights accorded to the Government of the United States of America under that Protocol and under agreements supplementary thereto shall cease.

The Government of the United States of America will cooperate with the Government of the Republic of China for the reaching of any necessary agreements with other governments concerned for the transfer to the Government of the Republic of China of the administration and control of the Diplomatic Quarter at Peiping, including the official assets and the official obligations of the Diplomatic Quarter, it being mutually understood that the Government of the Repub-

<sup>45</sup> 57 Stat. 767.



lic of China in taking over administration and control of the Diplomatic Quarter will make provision for the assumption and discharge of the official obligations and liabilities of the Diplomatic Quarter and for the recognition and protection of all legitimate rights therein.

The Government of the Republic of China hereby accords to the Government of the United States of America a continued right to use for official purposes the land which has been allocated to the Government of the United States of America in the Diplomatic Quarter in Peiping, on parts of which are located buildings belonging to the Government of the United States of America.

### ARTICLE III

The Government of the United States of America considers that the International Settlements at Shanghai and Amoy should revert to the administration and control of the Government of the Republic of China and agrees that the rights accorded to the Government of the United States of America in relation to those Settlements shall cease.

The Government of the United States of America will cooperate with the Government of the Republic of China for the reaching of any necessary agreements with other governments concerned for the transfer to the Government of the Republic of China of the administration and control of the International Settlements at Shanghai and Amoy, including the official assets and the official obligations of those Settlements, it being mutually understood that the Government of the Republic of China in taking over administration and control of those Settlements will make provision for the assumption and discharge of the official obligations and liabilities of those Settlements and for the recognition and protection of all legitimate rights therein.

### ARTICLE IV

In order to obviate any questions as to existing rights in respect of or as to existing titles to real property in territory of the Republic of China possessed by nationals (including corporations or associations), or by the Government, of the United States of America, particularly questions which might arise from the abrogation of the provisions of treaties or agreements as stipulated in Article I, it is agreed that such existing rights or titles shall be indefeasible and shall not be questioned upon any ground except upon proof, established through due process of law, of fraud or of fraudulent or other dishonest practices in the acquisition of such rights or titles, it being understood that no right or title shall be rendered invalid by virtue of any subsequent change in the official procedure through which it was acquired. It is also agreed that these rights or titles shall be subject to the laws and regulations of the Republic of China concerning taxation, national defense, and the right of eminent domain, and that no such rights or titles may be alienated to the government or nationals (including corporations or associations) of any third country without the express consent of the Government of the Republic of China.

It is also agreed that if it should be the desire of the Government of the Republic of China to replace, by new deeds of ownership, existing leases in perpetuity or other documentary evidence relating to real property held by nationals, or by the Government, of the United States of America, the replacement shall be made by the Chinese authorities without charges of any sort and the new deeds of ownership shall fully protect the holders of such leases or other documentary evidence and their legal heirs and assigns without diminution of their prior rights and interests, including the right of alienation.

It is further agreed that nationals or the Government of the United States of America shall not be required or asked by the Chinese authorities to make any payments of fees in connection with land transfers for or with relation to any period prior to the effective date of this treaty.

#### ARTICLE V

The Government of the United States of America having long accorded rights to nationals of the Republic of China within the territory of the United States of America to travel, reside and carry on trade throughout the whole extent of that territory, the Government of the Republic of China agrees to accord similar rights to nationals of the United States of America within the territory of the Republic of China. Each of the two Governments will endeavor to have accorded in territory under its jurisdiction to nationals of the other country, in regard to all legal proceedings, and to matters relating to the administration of justice, and to the levying of taxes or requirements in connection therewith, treatment not less favorable than that accorded to its own nationals.

#### ARTICLE VI

The Government of the United States of America and the Government of the Republic of China mutually agree that the consular officers of each country, duly provided with exequaturs, shall be permitted to reside in such ports, places and cities as may be agreed upon. The consular officers of each country shall have the right to interview, to communicate with, and to advise nationals of their country within their consular districts; they shall be informed immediately whenever nationals of their country are under detention or arrest or in prison or are awaiting trial in their consular districts and they shall, upon notification to the appropriate authorities, be permitted to visit any such nationals; and, in general, the consular officers of each country shall be accorded the rights, privileges, and immunities enjoyed by consular officers under modern international usage.

It is likewise agreed that the nationals of each country, in the territory of the other country, shall have the right at all times to communicate with the consular officers of their country. Communications to their consular officers from nationals of each country who are under detention or arrest or in prison or are awaiting trial in the territory of the other country shall be forwarded to such consular officers by the local authorities.

#### ARTICLE VII

The Government of the United States of America and the Government of the Republic of China mutually agree that they will enter into negotiations for the conclusion of a comprehensive modern treaty of friendship, commerce, navigation and consular rights, upon the request of either Government or in any case within six months after the cessation of the hostilities in the war against the common enemies in which they are now engaged. The treaty to be thus negotiated will be based upon the principles of international law and practice as reflected in modern international procedures and in the modern treaties which the Government of the United States of America and the Government of the Republic of China respectively have in recent years concluded with other governments.

Pending the conclusion of a comprehensive treaty of the character referred to in the preceding paragraph, if any questions affecting the rights in territory of the Republic of China of nationals (including corporations or associations), or



of the Government, of the United States of America should arise in future and if these questions are not covered by the present treaty, or by the provisions of existing treaties, conventions, or agreements between the Government of the United States of America and the Government of the Republic of China not abrogated by or inconsistent with this treaty, such questions shall be discussed by representatives of the two Governments and shall be decided in accordance with generally accepted principles of international law and with modern international practice.

#### ARTICLE VIII

The present treaty shall come into force on the day of the exchange of ratifications.

The present treaty shall be ratified, and the ratifications shall be exchanged at Washington as soon as possible.

Signed and sealed in the English and Chinese languages, both equally authentic, in duplicate, at Washington, this eleventh day of January, one thousand nine hundred forty-three, corresponding to the eleventh day of the first month of the thirty-second year of the Republic of China.

CORDELL HULL  
WEI TAO-MING

*Secretary Hull to the Chinese Ambassador (Wei Tao-ming)*

WASHINGTON, January 11, 1943.

EXCELLENCY :

In connection with the treaty signed today between the Government of the United States of America and the Government of the Republic of China in which the Government of the United States of America relinquishes its extraterritorial and related special rights in China, I have the honor to acknowledge the receipt of your note of today's date reading as follows :

"Excellency : Under instruction of my Government, I have the honor to state that in connection with the treaty signed today by the Government of the Republic of China and the Government of the United States of America, in which the Government of the United States of America relinquishes its extraterritorial and related special rights in China, it is the understanding of the Government of the Republic of China that the rights of the Government of the United States of America and of its nationals in regard to the systems of treaty ports and of special courts in the International Settlements at Shanghai and Amoy and in regard to the employment of foreign pilots in the ports of the territory of China are also relinquished. In the light of the abolition of treaty ports as such, it is understood that all coastal ports in the territory of the Republic of China which are normally open to American overseas merchant shipping will remain open to such shipping after the coming into effect of the present treaty and the accompanying exchange of notes.

It is mutually agreed that the merchant vessels of each country shall be permitted freely to come to the ports, places, and waters of the other country which are or may be open to overseas merchant shipping, and that the treatment accorded to such vessels in such ports, places, and waters shall be no less favorable than that accorded to national vessels and shall be as favorable as that accorded to the vessels of any third country.

It is mutually understood that the Government of the United States of America relinquishes the special rights which vessels of the United States of America

have been accorded with regard to the coasting trade and inland navigation in the waters of the Republic of China and that the Government of the Republic of China is prepared to take over any American properties that may have been engaged for those purposes and to pay adequate compensation therefor. Should either country accord the rights of inland navigation or coasting trade to vessels of any third country such rights would similarly be accorded to the vessels of the other country. The coasting trade and inland navigation of each country are excepted from the requirement of national treatment and are to be regulated according to the laws of each country in relation thereto. It is agreed, however, that vessels of either country shall enjoy within the territory of the other country with respect to the coasting trade and inland navigation treatment as favorable as that accorded to the vessels of any third country.

It is mutually understood that the Government of the United States of America relinquishes the special rights which naval vessels of the United States of America have been accorded in the waters of the Republic of China and that the Government of the Republic of China and the Government of the United States of America shall extend to each other the mutual courtesy of visits by their warships in accordance with international usage and comity.

It is mutually understood that questions which are not covered by the present treaty and exchange of notes and which may affect the sovereignty of the Republic of China shall be discussed by representatives of the two Governments and shall be decided in accordance with generally accepted principles of international law and with modern international practice.

With reference to Article IV of the treaty, the Government of the Republic of China hereby declares that the restriction on the right of alienation of existing rights or titles to real property referred to in that article will be applied by the Chinese authorities in an equitable manner and that if and when the Chinese Government declines to give assent to a proposed transfer the Chinese Government will, in a spirit of justice and with a view to precluding loss on the part of American nationals whose interests are affected, undertake, if the American party in interest so desires, to take over the right or title in question and to pay adequate compensation therefor.

It is mutually understood that the orders, decrees, judgments, decisions and other acts of the United States Court for China and of the Consular Courts of the United States of America in China shall be considered as *res judicata* and shall, when necessary, be enforced by the Chinese authorities. It is further understood that any cases pending before the United States Court for China and the Consular Courts of the United States of America in China at the time of the coming into effect of this treaty shall, if the plaintiff or petitioner so desires, be remitted to the appropriate courts of the Government of the Republic of China which shall proceed as expeditiously as possible with their disposition and in so doing shall in so far as practicable apply the laws of the United States of America.

It is understood that these agreements and understandings if confirmed by Your Excellency's Government shall be considered as forming an integral part of the treaty signed today and shall be considered as effective upon the date of the entrance into force of that treaty.

I shall be much obliged if Your Excellency will confirm the foregoing.

I avail myself of this opportunity to renew to Your Excellency the assurances of my highest consideration."

I have the honor to confirm that the agreements and understandings which have been reached in connection with the treaty signed today by the Government of



the United States of America and the Government of the Republic of China are as set forth in the above note from Your Excellency.

I avail myself [etc.]

CORDELL HULL

## 33

*Statement on Conference of President Roosevelt, Generalissimo Chiang Kai-shek, and Prime Minister Churchill, Cairo, December 1, 1943*<sup>46</sup>

The several military missions have agreed upon future military operations against Japan. The Three Great Allies expressed their resolve to bring unrelenting pressure against their brutal enemies by sea, land, and air. This pressure is already rising.

The Three Great Allies are fighting this war to restrain and punish the aggression of Japan. They covet no gain for themselves and have no thought of territorial expansion. It is their purpose that Japan shall be stripped of all the islands in the Pacific which she has seized or occupied since the beginning of the first World War in 1914, and that all the territories Japan has stolen from the Chinese, such as Manchuria, Formosa, and the Pescadores, shall be restored to the Republic of China. Japan will also be expelled from all other territories which she has taken by violence and greed. The aforesaid three great powers, mindful of the enslavement of the people of Korea, are determined that in due course Korea shall become free and independent.

With these objects in view the three Allies, in harmony with those of the United Nations at war with Japan, will continue to persevere in the serious and prolonged operations necessary to procure the unconditional surrender of Japan.

<sup>46</sup> *Department of State Bulletin*, Dec. 4, 1943, p. 393.

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## THE CHINA WHITE PAPER

August 1949

*With a New Introduction by Lyman P. Van Slyke*

This work was originally published in 1949 as *United States Relations With China: With Special Reference to the Period 1944-1949*, Department of State Publication 3573, Far Eastern Series 30. It is now reissued with an extensive Index prepared for this edition.

The White Paper appeared during the final stages of Communist victory in China. Amid increasingly strident controversy over the American role in these events, the Department of State sought to let the record speak for itself. The work begins with a 400-page summary of American China policy down to the summer of 1949; the remainder of the volume consists of over 600 pages of official documents, most of which were highly classified until the date of publication.

According to John K. Fairbank, "This volume marks the end of an era and also tries to explain it. It represents our last real view of the Chinese scene; everything since has been indirect. More important, this volume distills the understanding of the generation of trained China officers that began with the Rogers Act of 1924. These men were true China specialists who served in all parts of the country, and we have few like them today. In our lifetime I doubt we shall again get this much of a grasp of the Chinese scene."

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